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FEDERAL JOB CREATION PROGRAMS, 1983

HEARING

BEFORE THE

SUBCOMMITTEE ON EMPLOYMENT
AND PRODUCTIVITY

OF THE

COMMITTEE ON
LABOR AND HUMAN RESOURCES
UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

FIRST SESSION

ON

TO EXAMINE PAST FEDERAL JOB CREATION PROGRAMS AND FUTURE OPTIONS

JANUARY 12, 1983

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FEDERAL JOB CREATION PROGRAMS, 1983

WEDNESDAY, JANUARY 12, 1983

U.S. SENATE,
SUBCOMMITTEE ON EMPLOYMENT AND PRODUCTIVITY,
COMMITTEE ON LABOR AND HUMAN RESOURCES,
Washington, D.C.

The subcommittee met, pursuant to notice, in room 4232, Dirksen Senate Office Building, at 9:40 a.m., Senator Dan Quayle (subcommittee chairman) presiding.

Present: Senators Quayle and Kennedy.

Senator QUAYLE. The committee will come to order.

Today, we are beginning hearings on Federal job creation programs.

We are going to look at the past to see which of these programs has been successful or unsuccessful. Back in the early 1930's we had the first Federal job creation program. 1933 to 1939, we had an average of about 6 percent of the labor force in work relief programs—the present equivalent would be over 6 million persons, and yet we still had an unemployment rate of over 17 percent at the end of that period. In the 1960's and 1970's, we tried a variety of such programs, but whether they actually served to ameliorate the economic cycle is still an open question.

Today, we are fortunate to have as our leadoff witness Alice Rivlin, the Director of the Congressional Budget Office, who will give us her comments. After today's hearings, on February 15, we will have Martin Feldstein, Chairman of the Council of Economic Advisers, who will give the administration's point of view on job creation activity.

My personal belief is that the best way to create jobs is through economic recovery. That is what we all support. That requires coordination of not only perhaps job creation legislation, but also the budget process, the tax process, and various other facets of Federal policy over which this committee does not have jurisdiction.

I am delighted to be joined by Senator Kennedy this morning, who is a co-author with me on the Job Training Partnership Act. We went in the direction of training people and we developed a new area, which I hope will be accelerated and expanded, that is the dislocated worker program. There are basically two types of people that are unemployed, the cyclically unemployed and the structurally unemployed.

The structurally unemployed in the past has referred to individuals, primarily youth, disadvantaged youth, economically disadvantaged youth. Unfortunately, we have a new category of structurally unemployed, and those are adults with a history of attachment to the labor force who have no real chance of going back to their place of employment.

In my home State of Indiana, unemployed autoworkers and steelworkers are going to have to seek training and retraining and the Job Training Partnership Act went in that direction. It is not a job creation program. Obviously, the highway bill, which was passed, was to repair the highways and complete the Interstate System and do something about mass transportation, and it will have an impact on jobs. Whether it is 300,000 or more, there will be some jobs there, although it was not specifically designed to be a jobs creation program.

But we have a problem in this country, with 10.8 percent unemployment, possibly going up. We have to look at that kind of unemployment. Indications are that unemployment is going to remain high, and even a consensus of economists say that the recovery, when it comes, will be slow, and I hope it will be sustainable. From my point of view, the purpose of these hearings is to get many diversified opinions, to look at the picture in an historical perspective, and get some ideas as to how to go forward.

My personal belief is that we should do something. I do believe that the Government should be a willing partner with the private sector, where most of the jobs are. But I do not have any specific recommendations about how to put that into legislative form, and that is the reason we are having these hearings.

Most importantly, we are trying to create a program that will work. That is the bottom line, create a program that will have meaningful impact on putting people back to work. I believe, however, that the creation of jobs ultimately must be in the private sector.

I ask unanimous consent that my full statement be inserted in the record.

[Opening statement of Senator Quayle follows:]

OPENING STATEMENT OF SENATOR DAN QUAYLE

Today we are beginning hearings on Federal job creation programs.

Have these programs worked in the past? Can we design programs that would work in the future? We have a long record of Federal job creation programs going back to the thirties. From 1933 to 1939 we had an average of 6 percent of the labor force in work relief programs—the present equivalent would be over 6 million persons—and yet we still had an unemployment rate of over 17 percent at the end of that period. In the sixties and seventies we tried a variety of such programs but whether they actually served to ameliorate the economic cycle is still an open question.

Just a year ago the administration, the CBO and a consensus of private economists predicted that unemployment in the fourth quarter of 1982 would be under 9 percent compared to the actual of 10.7 percent. These economists are predicting only moderate declines in the unemployment rate during this calendar year and I hope they are as wrong in their pessimism this year as they were in their optimism last year. However, the depth and persistence of unemployment is a problem that we must face up to and, while I agree that economic recovery is the best job creation program, we must look at the question of whether there are interim steps that we can take to alleviate the unemployment situation until such time as economic recovery becomes a reality.

The call for job creation programs is coming from a broad spectrum of public opinion. The administration has created a task force on reducing unemployment; the majority leader of the Senate and the speaker of the House of Representatives have each called for job creation programs; and we all remember that both the House of Representatives and the Senate affirmatively voted for programs which were called job creation programs in the continuing resolution.

It seems to me that the question is no longer whether we should have job creation programs but, rather, can we design programs which will actually create jobs? One of the purposes of these hearings is to examine the past record. I do not want to prejudge the outcome of these hearings but, at least, it is fair to say that there are many who believe that past so-called job creation programs did not make a significant contribution to the reduction of high cyclical unemployment. Public works programs, as illustrated by the local public works program of 1976–77, have had enormous costs per job created as well as such time lags between the authorization of the program and the creation of the jobs that that program would have been better labeled a "pro" cyclical rather than a "counter" cyclical program.

The record of public service employment programs, particularly in 1975–76 and 1977–79, is no better. The program peaked as unemployment was receding and probably did more to fuel inflation than to reduce unemployment. The chart attached to my statement shows the perverse relationship between public service employment levels and the unemployment rate. In addition, the documented patronage and make work in that program are not such as to commend it to us for reenactment.

I trust that this hearing will give us a balanced view of the successes and failures of previous antirecession programs and I will certainly study that record carefully. The purpose of these hearings is, however, not just to look at the record of the past but also to examine new ideas for the future. I think we could all support jobs programs that will actually work: that is programs which will create more jobs than they lose and that have a reasonable cost for each job actually created. I am eager to hear descriptions of such programs. 1Let me indicate that it seems to me that we must focus on two problems which are, at least analytically, quite distinct. The first of these problems is that of structural unemployment. We used to think of structural unemployment as a problem of the school dropout, the welfare recipient and others with no preparation or experience in the labor market. What has become clear in the last few years is another dimension of structural unemployment which has acquired the name of "The Dislocated Worker." I am pleased that the Job Training Partnership Act provides a new program for dealing with these workers through a program of retraining. This program received an initial funding allocation of $25 million in the continuing resolution. I think we need to look at that program both in terms of the appropriate funding allocation and of its capacity to deal with the enormous size of the problem. I think we also need to look at the unemployment insurance system and particularly the program of extended benefits and Federal supplemental compensation to see whether those benefits should not be more closely tied to retraining.

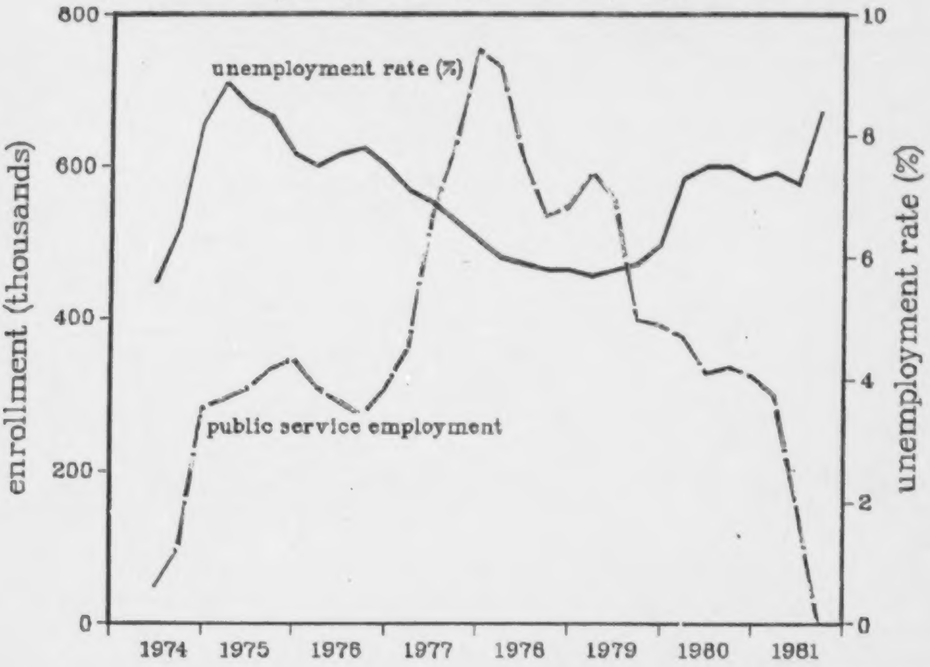
It has been estimated that structural unemployment—both of the economically disadvantaged and the dislocated worker—may account for over half of the total number of unemployed. For these workers training or retraining is clearly an essential prerequisite to their escape from unemployment and I will be eager to hear recommendations for dealing with this segment of the unemployed.

The cyclically unemployed will gain opportunities for employment with economic recovery but we must examine carefully the question of whether we can provide them with interim employment opportunities in that apparently lengthy period before we can expect economic recovery to solve the unemployment problem. It appears to me that we must focus on existing labor intensive programs to see if they can be expanded to provide new employment opportunities at reasonable cost. The problem with this approach is that one man's labor intensive program becomes another man's pork barrel. I believe that in order to fruitfully use the concept of funding labor intensive programs we must find an objective system of measuring this labor intensity and not just rely on the normal political process which tends to identify the politically attractive rather than the labor intensive.

It is my hope that, on the basis of the testimony today, I will be able to propose an approach to the job creation problem and that the subcommittee can then schedule hearings on that proposal as well as any other proposals that may be pending before the subcommittee. In view of the urgency of the subject, I would hope that the subcommittee could take action by the Easter recess.

[Chart supplied for the record follows:]

ceta public service employment levels and average quarterly unemployment rates



Senator QUAYLE. With those opening comments, I am delighted to turn to Senator Kennedy.

OPENING STATEMENT OF SENATOR KENNEDY

Senator KENNEDY. Thank you very much, Mr. Chairman.

It's not often these days that we have any good news. But today is a good news day. For, after 18 months of rising unemployment and the loss of millions of jobs from our economy, we are finally holding a public hearing on what can and must be done to get Americans back to work.

I want to commend my friend and colleague, Senator Quayle, for taking this initiative. Senator Quayle and I have worked together over the last 2 years to fashion the bipartisan training program the President mentioned in his press conference last week. While we didn't always see eye to eye, we did agree on the critical need to help young people who've never had a job and older workers who've been permanently displaced get the skills and training they will need to compete when the economy does improve. But that will take time.

Let's be clear—there are no jobs in that program. No one will go to work immediately. Not one new job will be created. We won't begin to see the dividends from that new training program for at least 2 years.

The 12 million men and women who are out of work need jobs and they need them now.

The plight of these men and women is all too familiar. After working steadily for years, they are laid off. They get by for a while on unemployment benefits and savings, but these resources are exhausted all too soon. Welfare is out of reach if they own a car. And they need the car to look for work. And there is precious little money for gasoline.

They're caught. They need a job—any job. They can't feed and clothe their families on the premise of a training program. They can't meet the mortgage and pay the bills if there is no money coming in.

Last February, I convened a policy forum on unemployment. At that time, the jobless rate stood at 8.5 percent and 9 million were without work. We asked seven men and women from different regions of the country to tell us their stories. They were all struggling but they were determined to see it through.

One year later, very little has changed for them:

The H. D. Bush family lives in Forestdale, Ala. Mr. Bush is a steelworker and was laid off almost 2 years ago. He is still hunting wild game to put food on the table and his mother now helps out when she can. His wife says they are barely making it.

William Collett was laid off from International Harvester's plant in Melrose, Ill. 2 years ago. Last year, the family got by on the salary from Mrs. Collett's job. Now she's in the hospital and can't work and Mr. Collett is still unemployed.

Monika Mitchell worked at the Ford plant in Ypsilanti, Mich., for 9 years but she lost that job in June of 1980. She continued to look for work but in the meantime she and her 10-year-old daughter have gone on welfare. She is going to school to learn data processing but it will take 2 years to finish the course.

Tom Aldridge moved his family of nine from Indiana to Oklahoma a year ago last September after landing work with General Motors. Two weeks later, he was laid off. When we tried to call him in the last couple of days, we were told his phone had been disconnected.

These people know firsthand what the President and his administration refuse to recognize. For the unemployed, things aren't getting better, they're getting worse.

We have an opportunity with a new year and a new Congress to change that course. We have a responsibility to face up to the human suffering brought about by the failed economic policies of this administration. We can no longer turn our backs. We can no longer look the other way. We can't wait a few more months for supply-side economics to work. It hasn't and it won't.

Today, I call on my colleagues from both sides of the aisle to set aside our partisan concerns. Let us acknowledge the mistakes of the past so we can learn from them for the future Let us work together to fashion a jobs program that we all can support. The problem before us is too serious and the costs of failure too great. Let us move forward together now.

Senator QUAYLE. Thank you very much.

I certainly agree that we are in the spirit of moving together in a bipartisan fashion as we have worked together in the past.

I ask unanimous consent that the statement of Senator Hatch be included in the record at this point.

[The prepared statement of Senator Hatch follows:]

Prepared Statement of Senator Orrin Hatch

I want to commend the distinguished chairman of the Employment and Productivity Subcommittee, Senator Quayle, for holding these hearings on governmental job creation and the history of our Nation's previous employment programs. There is no denying that our economy faces a challenge that it has not faced for many years—and a challenge it must win. American families have been disrupted and subject to both financial and emotional hardships due to our changing economic climate, and it is incumbent on us to examine and adopt public policies which are not only compassionate, but which will work over the long haul.

There is always the temptation to enact a program of artificial jobs as a quick solution to an unacceptable unemployment rate. Such jobs programs will help the lucky ones who get the temporary, low-wage jobs. That is good for the politicians who can subsequently point to a reduced unemployment rate, claim to have solved the problem, and then try to face voters with a clean conscience. But what about the workers? What about those who do not land a public job? Do we forget them after we pass the bill? How many jobs can our national pocketbook afford? Increased Federal spending on top of a decreased tax base will only lead to a bigger deficit and competition between the public and private sectors in capital markets. If private industry cannot borrow funds at reasonable interest rates, more private sector workers could lose their jobs as a result of a public employment project. And what about the person who does obtain a new public service job? That individual will spend time honorably on a worthy project, but he or she will have given up valuable time which could have been spent in job search or in a retraining program. Often we ignore the opportunity costs of public service jobs to the individuals who hold them.

Another pitfall of a public jobs program, since it successfully disguises the problem under a lower rate of unemployment and alleviates the public's demand for Congress to act, is that it diverts attention away from the positive steps which can be taken.

First, title III of the Jobs Training Partnership Act of 1982, a program to assist and retrain dislocated workers, should be fully implemented. The new program was provided only $25 million in the continuing resolution. This is not enough for a program with so much potential for addressing the major issue of structural unemployment among experienced workers in ailing industries.

Second, the current situation has provided us with the impetus to evaluate federally assisted services to the unemployed, such a unemployment insurance and employment security offices. These services are vital, but they have been ignored by Congress for a long time. Perhaps they could be improved. Congress should not overlook the possibility that overlapping jurisdictions and functions, unstable financing, political interference in some areas, and lack of coordination with other Federal and State efforts hinder the efficiency of services to the unemployed.

I read recently a survey in the Wall Street Journal, a survey which echoes the results of polls I have seen in other periodicals, showing that most business and industry leaders predict moderate economic growth in 1983. Such views are a good sign for America's recovery. To a great extent, business decisions are based on expectations. It may well be a self-fulfilling prophecy that business will pick up and real, private sector jobs will be created. Let us not underestimate the resiliency of our industry or our labor force and their ability to heal the illness of cyclical unemployment without Federal band-aids.

Senator **Quayle**. It is now with a great deal of pleasure that I introduce Dr. Rivlin, who is a renowned expert on budget matters and because of that expertise and the job she has done, she will now be renowned as an expert in jobs creation.

We await with a great deal of expectation what you unveil to us today.

Dr. Rivlin?

STATEMENT OF ALICE M. RIVLIN, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Dr. **Rivlin**. Thank you.

I share the sentiments that both you and Senator Kennedy have expressed about the seriousness of the problem and the importance of thinking about everything we can possibly do to alleviate the unemployment problem.

I also share your view—and I think everyone else's—that ultimately, the only solution to the unemployment problem is to get the economy moving again. But that will not happen quickly.

Unemployment is currently at its highest level since World War II and is likely to remain high for some time to come. Today's joblessness is the result of both cyclical and structural causes: the slowdown in economic activity; the persistent job difficulties of disadvantaged, low-income groups; and the long-term decline of some industries. Because the reasons for the joblessness of different groups are not the same, the options for helping those groups differ.

Today, I will discuss three topics:

The current unemployment situation;

Factors affecting the policy response to high joblessness; and

Options for assisting different groups of unemployed persons.

THE UNEMPLOYMENT SITUATION

Unemployment has risen steadily for more than a year, reaching 10.8 percent in December 1982—the highest level since 1941 and up more than 3½ percentage points since the most recent low point in July 1981. More than 12 million persons were reported to be searching for work in December, and 1.8 million others who wished to work were not counted as unemployed because they said they had given up looking for jobs. Of those counted as unemployed in December, almost 40 percent had been without work for 15 weeks or more, and more than 60 percent were unemployed because they had lost their last job, as distinct from having quit or having newly joined or rejoined the work force.

The recent surge in unemployment occurs in the context of longer term increases in both employment and average joblessness. Employment has grown considerably in recent decades, from 66 million workers in 1960 to nearly 100 million today—the result of both population growth and an increase in the proportion of women who work. The unemployment rate has also risen over this period, from an average of 4.6 percent in the 1950's and 1960's to 6.2 percent in the 1970's. Thus far in the 1980's—a time dominated by recession—unemployment has averaged 8.1 percent.

The recent rise in unemployment has affected all groups in the work force, as shown in table 1. Joblessness among adult men—a group that has had an historically low unemployment rate—reached 10.1 percent in December, exceeding the rate for adult women. In the same month, one in five blacks and nearly one in four teenagers in the labor market were without work. Unemployment has been concentrated in the goods-producing industries of the economy, with 22 percent of construction workers and 14.8 percent of manufacturing workers without jobs in December, compared to about 8 percent of all service workers. Regional unemployment patterns are strongly related to the types of workers and industries concentrated in particular areas, with the highest State jobless rates occurring in the industrial Midwest, parts of the South, and the Far West.

[The following table was received for the record:]

TABLE 1. **SELECTED UNEMPLOYMENT RATES BY DEMOGRAPHIC AND OCCUPATIONAL GROUPS (Seasonally adjusted, in percent)**

Group	July 1981a/	December 1982
All Workers	7.2	10.8
Adult Men	5.8	10.1
Adult Women	6.7	9.2
Teenagers	18.7	24.5
White	6.3	9.7
Black	13.8	20.8
Goods-Producing Industries		
Construction	15.2	22.0
Manufacturing	7.3	14.8
Durables	7.1	17.1
Nondurables	7.6	11.4
Service-Producing Industries		
Transportation and Public Utilities	4.1	8.0
Wholesale and Retail Trade	7.9	11.0
Finance and Service	5.7	7.9
Government	4.6	5.1

SOURCE: Department of Labor, Bureau of Labor Statistics.

a. Month corresponding to the most recent low period of unemployment.

Dr. **Rivlin**. The employment outlook for the near future is not promising. Even if economic recovery begins soon—and we believe it will—joblessness is not likely to decline rapidly. If recovery begins in the first quarter of 1983, for example, building to an annual real economic growth rate of 4 percent to 5 percent, unemployment could still remain above 10 percent through early 1984. Moreover, even with decreases in overall unemployment, certain groups of workers will continue to have difficulty finding jobs because they lack the skills needed in today's labor market. Individuals who have little in the way of job skills, and employees displaced from declining industries with little prospect of being rehired by their former employers—often referred to as dislocated workers—will both continue to suffer employment problems.

FACTORS AFFECTING THE POLICY RESPONSE

In past periods of prolonged recession, the Congress has enacted economic stimulus programs, often including direct job creation efforts such as public works and public service employment programs. Though such programs could expand employment opportunities during the current downturn, there would be certain risks in undertaking them at this time. Specifically, Federal deficits are very large now and are expected to remain large for some time to come—running in excess of $150 billion for each of the next several years, unless further action is taken to increase revenues or hold down spending. Enacting new direct spending programs in the current environment would thus add to already highly troublesome deficits, placing additional pressure on interest rates and running the risk of choking off economic recovery. Attempts to offset this effect through monetary policy would risk higher inflation in the future.

In light of concerns regarding the deficit, the Congress could finance additional spending by raising taxes selectively—as in the recently passed highway and mass transit bill. Such an approach would shift productive activity from the private sector to the public sector, and would alter the composition of employment in the short run. But it would probably have little effect on overall employment in the long run. Similarly, a job creation program could be financed by reducing Federal spending in other areas—again altering the composition, and perhaps the timing, of employment in the near term, but probably having little effect on total employment in the long run. That is a difficult situation in which to make policy.

OPTIONS FOR ASSISTING THE UNEMPLOYED

Although substantial improvement in the employment situation will not occur without sustained economic growth, options are available for aiding some number of the unemployed now. Two general approaches are available:

Addressing cyclical unemployment problems by expanding immediate job opportunities for unemployed persons; and

Focusing on structural problems responsible for the long-term joblessness of certain groups.

ADDRESSING CYCLICAL UNEMPLOYMENT PROBLEMS

Currently, the principal program for aiding the cyclically unemployed is unemployment insurance—UI—a joint Federal-State system that provides short-term partial income replacement for some unemployed persons. Unemployment insurance does nothing to expand people's immediate job prospects. As of December, approximately 5.7 million persons—or about half of all unemployed individuals—were receiving UI payments, about 700,000 of them under the Federal supplemental compensation program authorized last fall and due to expire at the end of March. Further extending Federal benefits would provide an additional financial cushion for some of the cyclically unemployed but would not improve their employment opportunities.

Several approaches are available for expanding immediate job opportunities. Specific options—all of which have been used in previous recessions—include:

Public works construction or repair programs;
Other public employment programs; and
Wage subsidies for new private sector employment.

These and other options are examined in greater detail in a recently released Congressional Budget Office paper: "Strategies for Assisting the Unemployed," prepared in response to requests from the chairman of this subcommittee and other committees.

PUBLIC WORKS PROGRAMS

Increasing Federal funding to enable States and localities to pay for the construction or repair of public facilities such as roads, bridges, and sanitation systems is one way of expanding employment opportunities principally in high-wage, high-skill construction jobs and in the industries that supply construction materials. A public works program might also improve the overall efficiency of the economy by helping to address the Nation's long-term public capital needs.

The most recent such Federal effort, the local public works—LPW—program, provided $6 billion to States and localities during the late 1970's to fund about 10,600 projects, principally in areas of high unemployment. Most LPW projects were relatively small scale, costing an average of about $570,000, with none larger than $5 million. The Department of Commerce, which administered the LPW program, has estimated that the Federal funds generated approximately 93,000 person-years of on-site project employment—principally in short-duration construction jobs—plus 66,000 person-years of employment in such supplying industries as concrete and steel manufacturing. The average Federal expenditure for the nearly 160,000 person-years of employment estimated to have been created directly was therefore about $38,000 per job year in 1978 dollars.

Most of the effects of the LPW program were felt during the economy's recovery, however, with project-related employment peaking well after overall joblessness had begun to decline. The slowness of LPW spending was due in part to the timing of congressional action in authorizing the program, and in part to the lags inherent in planning and carrying out public works projects.

OTHER PUBLIC EMPLOYMENT

Funding temporary jobs in Government agencies, nonprofit organizations, or conservation projects is another means of expanding short-term employment opportunities. This approach could create more direct employment than public works projects, because public employment generally uses less capital and provides participants with lower wages. Since wages are usually lower, public service jobs are more likely to go to low-income persons or to the long-term unemployed who have depleted their financial resources.

The Federal Government has funded public service employment—PSE— programs several times in the recent past, with PSE spending peaking at $5.8 billion in 1978. Most PSE jobs were short duration positions in such areas as law enforcement, education, transportation, and parks and recreation. The types of people employed in these jobs, the wage levels paid, and thus the average Federal cost per worker have all varied over time. When phased out in 1981, PSE jobs were focused on the disadvantaged, and the maximum allowable annual wage level was $10,000. In that year, each person-year of employment funded through PSE programs cost approximately $11,000 in Federal outlays—about 70 percent of which went for wages. Evaluations of past PSE programs have generally concluded that some share of the persons employed with Federal funds would have been hired in any event—thereby creating fewer net new jobs in the short run. The extent to which such fiscal substitution would occur today is difficult to assess.

Another means of expanding public employment would be to provide unrestricted cash grants to States and localities, allowing them to determine how the money should be spent. Such a countercyclical revenue sharing program operated between 1976 and 1978, distributing more than $3 billion to State and local governments. In the short run, funds distributed under that program merely increased Governments' financial balances, thus delaying the full stimulus effect of the program. While the strained fiscal condition of States and localities today might make them more likely to spend additional Federal funds more quickly, they might not necessarily use the money for particularly labor-intensive projects.

COUNTERCYCLICAL WAGE SUBSIDIES

A quite different approach to expanding job opportunities would be to provide wage subsidies—through tax credits or direct expenditures—to private-sector employers hiring additional workers. This option could help stimulate broad-based employment gains by reducing the cost of labor. Such a subsidy could be implemented quickly and could be made applicable only for hiring during specified periods. The net job creation effect of such a subsidy is uncertain, however, because many employers might receive the subsidy for new employment that would have occurred anyway.

A new jobs tax credit operated during 1977 and 1978, providing businesses with a nonrefundable tax credit of 50 percent of the first $4,200 of wages per employee for increases in employment of more than 2 percent over the previous year. Evaluations of that program concluded that the availability of the credit did little to alter most employers'hiring decisions, however.

ADDRESSING STRUCTURAL UNEMPLOYMENT PROBLEMS

Even after the economy has recovered from the present recession, two groups will likely continue to experience labor market problems—low-income individuals who have little recent work experience or who have worked previously but with chronically low earnings, and workers who have been displaced by long-term changes in the economy. The primary goal of policies to assist these persons—the structurally unemployed—is to increase their long-term employability, rather than just to expand immediate job opportunities. None of these policies can succeed, however, without sustained real economic growth.

Authorizing legislation already exists that would help structurally unemployed persons. The Job Training Partnership Act, enacted in October 1982 as a replacement for the Comprehensive Employment and Training Act—CETA—provides federally financed but State- and locally-administered training, job search assistance, and related activities for both disadvantaged and dislocated workers. The principal issues in addressing structural employment problems, therefore, now concern what funding levels to provide in the future and how to exercise discretion available under the act.

ASSISTING DISADVANTAGED PERSONS

Experience under CETA and related programs suggests that different approaches might be used to aid different groups of disadvantaged persons. A joint CBO-National Commission for Employment Policy study found that, for adults with little previous work experience, training and related services provided under CETA were successful in raising trainees' earnings, on average, primarily by increasing the number of hours worked. For adults with more work experience but chronically low earnings, more extensive—and, therefore, more expensive—training would probably be required to increase future earnings. For disadvantaged youth—who often lack any work experience, and who may lack marketable skills as well—some combination of remedial education, work training, and job search assistance might be required.

ASSISTING DISLOCATED WORKERS

Title III of the Job Training Partnership Act authorizes several different services for dislocated workers. Under that title, States—with the assistance of private industry councils, if the States choose to use them—will identify groups of dislocated workers and determine what job opportunities might exist for which the individuals could be trained. Funds may be used to provide job search assistance, prelayoff assistance, relocation aid, training, and, in the event of a plant closing, early joint employer-labor intervention. To receive title III aid, States must provide matching funds, with the size of the match varying with the State unemployment rate.

To use title III funds most effectively, States might offer different services to different dislocated workers. One approach would be to sequence the services. Job search assistance—the least costly—could be provided to all program participants. Those still without new jobs could then be offered relocation aid. Finally, training—

the most costly service—might be provided to those workers whose present skills are not in demand either where they now live or in other labor markets.

CONCLUSION

In conclusion, Mr. Chairman, several options are available to expand short-term employment opportunities or to address structural unemployment problems. All such options have certain limitations and carry risks, however. Countercyclical stimulus programs might expand already large Federal deficits—increasing pressures on credit markets and posing some risk of rekindling inflation. Training and other assistance for the structurally unemployed also add to the deficit but might contribute as well to longer-term productivity gains once economic recovery takes hold. Deliberations regarding the fiscal year 1984 budget will present the Congress with its next opportunity to address competing employment policy concerns.

Senator QUAYLE. Thank you very much, Dr. Rivlin.

In your testimony, I noticed you said that perhaps the unemployment through early 1984 would remain at about 10 percent. Is that an assumption of about a 3- to 4-percent growth rate, or what growth rate factor would we need to get unemployment down to 10 percent by early 1983-84?

Dr. RIVLIN. That is right. The standard forecast now—and I think you will see as the forecasts are revealed in the next month that there is not much difference between us, the administration, and the commercial forecasts—is that the economy will begin to recover quite soon, in the first half of the year. But that the recovery will be moderate—in the range of 3 to 4 percent for 1983 (figured fourth quarter over fourth quarter). Real growth will accelerate somewhat near the end of 1983 and early in 1984.

Unfortunately, with growth this low, we will still have unemployment above 10 percent until early in 1984.

Senator QUAYLE. So in other words, even with a 3-to-4-percent growth rate, fourth quarter over fourth quarter, you are still looking at an unemployment figure of above 10 percent?

Dr. RIVLIN. In early 1984. Unfortunately, that is right. It takes substantial growth to get the unemployment rate down in a recovery period, because the labor force continues to expand, and because productivity usually increases. These changes are desirable from most points of view, except that they don't lead quickly to lower unemployment.

Senator QUAYLE. You know, you talked about the Consensus Forecast and you say in the next few weeks we will get them all, and you will be about where the administration is.

If you look back in 1982, I think CBO was one of the more accurate ones but everybody was off on the unemployment forecast.

Is there any chance that they may be off on the unemployment forecast in the reverse way; that it will drop much quicker than economists are predicting? Last year it went up much higher than anybody predicted.

Dr. RIVLIN. I hope so, Mr. Chairman, but I don't see a realistic chance of that happening. It is true that last year's forecasts were too optimistic about growth in the economy and about unemployment. We all expected that a recovery would begin in the summer, and that the unemployment rate would be down to about 9 percent by now. It didn't happen that way, however, largely because of tight monetary policy. Now, unless one is willing forecast very rapid economic growth—which I think is unlikely—the problem is that unemployment will not come down very fast.

Senator QUAYLE. We hear the figure bandied around quite a bit that for every 1 percent of unemployment it costs the Federal Treasury about $28 billion or $30 billion. Is that an accurate figure?

Dr. RIVLIN. It is a reasonably accurate figure. It is always difficult to estimate the budgetary impact of changes in particular economic variables because they do not change in isolation. A drop in overall growth in the economy sufficient to raise the unemployment rate by 1 percentage point is very costly to the Federal budget, principally because it reduces revenues. Federal tax revenues decline by roughly $25 billion as a result of this reduced growth and higher unemployment. Slower growth and higher joblessness also increase spending by $6 billion to $10 billion, with about half of this increase—$3 billion $4 billion—resulting from increases in unemployment compensation. The remainder of the increase in Federal spending is due to higher federal interest costs—which accompany higher deficits,—and added spending in other programs—such as medicaid, AFDC, and food stamps—that increase somewhat as unemployment rises.

Senator QUAYLE. I noticed in your conclusion that you said all the options have certain limitations and carry risks. I suppose it would be fair to say that if you want to put it in the category of job creation, that one of the ways that the Congress is going to create jobs would be to reduce significantly the deficit, not only in 1984 but particularly in the out years; that that could be conceived and pontificated as a job-creation measure.

Is it fair to say, that the deficit and the size of the deficit is going to have a direct impact on jobs in any kind of job creation proposal that the Congress will or will not consider?

Dr. RIVLIN. Yes, I think so. One of the principal threats to the sustainability of a recovery is the fact that, unless Congress takes action, we will continue to have very large deficits in 1985–87. Those deficits could well abort the recovery, because they would have to be financed by increased Federal borrowing—and that borrowing could crowd out other, private-sector, borrowing that accompanies a recovery. So there is a very serious danger that the big deficits could threaten the recovery, itself. One can view getting future deficits down as a way of incuring the sustain-ability of the recovery.

If one looks at substantial job creation programs, one has to worry about their effects on future deficits.

Senator QUAYLE. I noticed you were very careful in your statement when you talked about job creation activities, that they will have to be funded through borrowing or increasing revenues. I think that was in your testimony. In other words, you are indicating that we should not just go ahead or you would not advise going ahead and having job creation proposals, if it is just going to add to the deficit. We cannot keep our eye off the deficits, particularly in the out years.

Dr. RIVLIN. You must keep your eye on the huge deficits in the out years. However, if you do finance a job creation program in the near term either by cutting back other spending or by raising taxes, it will reduce the net job creation effect of the program. The gasoline tax to finance road repairs is certainly an example of this.

Senator QUAYLE. How would you respond to people that would advocate, that the Congress ought to do essentially nothing except reduce the deficit; any kind of a jobs program is only going to have a net detriment to job creation because they are going to be more oriented toward public service employment; and the best thing you all could do is nothing?

What would be your response to that argument?

Dr. RIVLIN. Well, as you know, I never give such bold advice to the Congress. I think this poses a very difficult dilemma. Doing something to improve the future employability of low-skilled people and people who are being dislocated from major industries seems to me terribly important as an investment in our future productivity. But with respect to ordinary cyclical unemployment, it is much harder to say what to do, since almost anything you can think of does add to the deficit and may threaten the recovery itself.

Senator QUAYLE. Let me ask one final question and I will yield to Senator Kennedy.

Let's assume that for a job creation program we wanted to look at some of the labor-intensive government programs that we already have on the books. The problem that we in Congress have is that what might be job creation to one Senator is porkbarrel to another Senator; and if you go down and you try to get job creation legislation, well, the individual responses are, "I have to have this in my District" and "I am going to have this in my State." When you get down the road and add it up, everybody is taken care of, but the big picture is missed.

Is there any way we might objectively, with the help of the Congressional Budget Office, and perhaps the Department of Labor and others, identify what labor intensive programs we already have? If we accelerate spending in the short term for those programs, that would translate immediately into new jobs.

Can we identify which government programs that already exist are labor intensive; and, if so, could you outline some criteria that we might want to look at?

Dr. RIVLIN. There is some experience with that, yet identifying labor-intensive programs in a comprehensive manner at the Federal level is very difficult. One comes down to looking at State and local government programs, mainly. Labor-intensive programs are those that are basically service programs—in schools, in hospitals, or in law-enforcement activities, for example—where you can use additional people without a lot of materials and where wage levels are relatively low. Even if such programs are identified, however, there are still two basic problems: Can you find really productive things for people to do? And, perhaps more important, would those workers be displacing State and local government workers who would have been hired anyway?

Senator **Quayle**. I wonder if we might also want to add to that, the idea that instead of service oriented jobs, that we look at project oriented jobs, that once the short-term input from Federal moneys—if there is going to be at least a result, something that is successful, filling potholes, weatherization programs, rather than just services, such as expanding adult education which is on again off again. Even though some may receive useful benefits from that, it is still not a tangible result that we can see.

I wonder if we should be delineating between the service oriented and the project oriented results.

Dr. **Rivlin**. Certainly, repair and rehabilitation programs—pothole filling, and repairing public buildings, are labor intensive, although they do require some materials. With these types of projects, you do get something when you are finished however, You get a repaired road.

Senator **Quayle**. Thank you very much, Dr. Rivlin.

Senator Kennedy?

Senator **Kennedy**. Thank you very much, Dr. Rivlin.

I want to join in welcoming you to this committee. I think those of us who have had an opportunity over a period of years to know of your service in the Congressional Budget Office know the superb work you have done for the Congress; and all of us are grateful to your service and to the way that you have handled this responsibility.

I am personally appreciative of your appearance here today to talk about a matter of overwhelming concern to the American people.

I think you have outlined for us in a very frank and candid way some of the various jobs programs that have been attempted in the past, some of the benefits of those programs and some of the trouble with those programs. I agree with the chairman of the committee that the most important responsibility that this country has—we in the Congress, the private sector, and in the executive branch—is to bring about a restoration of our economy. That is the best way to get Americans back to work.

I think in the meantime we do have responsibility to try and ease the misery and the suffering that is taking place across this Nation to millions of Americans who in so many instances have worked over a period of a lifetime and now are leading lives of hopelessness and despair. I would hope that we in the Congress can fashion some proposal to provide some degree of relief. We are not going to be able to do it in as comprehensive a way as we might want to, but I certainly think we have that responsibility. And as I mentioned earlier, I commend the Chair for focusing this hearing on this particular issue.

You have very well stated the fundamental question and that is the state of our economy.

The most important jobs program in this Nation is a sound economy and it is a growing economy.

I have just returned from Massachusetts and I have been around my State over a period of time and I have visited many of the communities in that State. And during that period of time I have talked to workers; I have talked to small businessmen and women. I have talked to corporate officials and workers and they say, Senator, you are one of the handful of Members of the Congress that at the time when the administration's economic proposal was placed before the Congress, felt it would not work.

I, quite frankly, found the CBO projections of the administration's proposal in terms of deficits very clear and very compelling, although many of my colleagues did not value those estimates.

Now we have seen the dramatic increases in unemployment over the last 18 months. Those figures are well understood by you and certainly by the men and women who are unemployed. Home mortgage rates have continued to increase since this administration assumed office. Now, you project over a $150 billion deficit for the continuing years. All of us have watched on the news about how the administration is making its judgment in terms of allocating for national defense.

We have these massive buildups in defense spending and significant reductions in social programs many of those reductions came out of this committee on programs such as education, nutrition, or immunization of children. And we know we are going to have those requests come again. Yet still the administration is saying, stay the course, stay the course.

As you have outlined to us, the most important thing for us who are interested in putting Americans back to work, is a change in—an alteration of—the course.

If we continue to stay the course, what do you predict that will mean in terms of the unemployed men and women of this country, and in terms of the size of the deficit? Are the men and women in this country going to be able to purchase a home? What will be the general plight of the small businessmen, and the women and the farmers of this Nation? What will be the condition of the American people?

It seems to me, Ms. Rivlin, that the Congress is suggesting either one way or another, either subtly or maybe in a more outspoken way, that we ought to alter the course. And it is not just Democrats this time. We now hear the majority leader, Senator Baker, the chairman of the Finance Committee, Senator Dole and a highly respected member of the Republican Party and a close friend of the President, Senator Laxalt—all talking in various tones, but all talking about changing the course.

What can you tell us as a respected economist who has been dealing with these various issues over a period of time, if we do not alter and change the course, what is going to be the condition of the American people in these next 2 to 3 years?

Dr. RIVLIN. Well, as I said earlier, the current outlook is for a gradual improvement in the economy. That improvement is severely threatened, however, by the fact that, unless some action is taken either on the spending or on the tax side of the budget—or both, and I think most likely it has to be both—there will be very large future deficits that could threaten the recovery. I think that is the major problem for the 98th Congress, and I know you are already worrying about it.

I think there will have to be a combination of cutting back on defense increases, cutting in other areas—especially in the growth of entitlement programs—and finding a way to raise more revenue in the future that does not threaten the immediate recovery. The problem is how to reduce future deficits with as little damage to economic growth as possible. There is just no easy way out of that.

The other lever that the Government—though not the Congress—has, of course, is monetary policy. Monetary policy has been extremely tight over the last couple of years. Real interest rates, although they have come down some, are extremely high. It seems likely that the Federal Reserve is now doing what it can to reduce interest rates a little further. There are also, of course, risks to a much easier monetary policy.

Senator KENNEDY. Well, you are suggesting that there has to be an alteration of the course, as I understand it, if we are going to bring some restoration to our economy. You have projected a 3-percent rate of growth over the period of this year. What is that going to mean in terms of reduction of unemployment?

Dr. RIVLIN. It is going to mean very slow reduction in unemployment.

Senator KENNEDY. If you have less than 3-percent annual growth, do you get any reductions in unemployment?

Dr. RIVLIN. By the end of the year there will be some reduction, because the 3-percent figure for the year means that, by the end of the year, the economy is actually growing faster than that rate.

Senator KENNEDY. Are you talking about millions or hundreds of thousands?

Dr. RIVLIN. You are talking about hundreds of thousands of jobs, and the situation could even get worse before it gets better. That is a characteristic of unemployment rates.

Senator KENNEDY. So if there is no real change or alteration, either in the size of the deficits as you project now, or in the defense buildup what is going to be the condition of economy in terms of the unemployed?

Dr. RIVLIN. As I said earlier——.

Senator KENNEDY. Still over 10 percent?

Dr. RIVLIN. With a moderate rate of growth of the kind contemplated, unemployment will still be around 10 percent in early 1984—headed down, but headed down slowly. Further, it is not obvious that there is much that the Congress can do about it.

Senator KENNEDY. How long would it take under the current economic program for us to get back to the 7.2-percent unemployed figure, which was the figure at the time that this administration took office?

Dr. RIVLIN. Several years.

Senator KENNEDY. Several years.

Why is it that in the recovery now—is this a recovery? Do we have a recovery?

Dr. RIVLIN. We are not sure yet.

Senator KENNEDY. I suppose that is important to establish.

Dr. RIVLIN. We have signs of recovery, but we're not really sure. We've thought we had signs of recovery before.

The encouraging signs are that housing seems to be picking up in response to interest rate declines, and that automobile sales look favorable. One hopes that general retail sales will follow along, but it is not yet sure.

Senator KENNEDY. As I understand, the 1973-74 recovery came out of that with a much more rapid rate. It was identifiable, as I understand, over the period probably of the last 20 years. The rates of recovery have been close to 6 percent in terms of GNP growth.

Why is it at this time so undiscernible, or is it discernible? In the past history of the American economy, we have seen a more significant recovery and it has been noticeable, identifiable, and had an impact on the quality of life of the American people. This evidently is so modest it is difficult to discuss and perhaps even question whether it is taking place.

Can you tell us why?

Dr. RIVLIN. It is always difficult to identify exactly when the bottom of a recession has been reached. There was a similar problem in 1975. However, the principal reason why this recovery has taken so long to begin, is that we have extremely high real interest rates. The extremely tight monetary policy was designed to bring down inflation; but it also slowed down the economy and delayed the recovery. This situation is different from that in 1975, and is the reason why we do not expect such a rapid recovery now.

You are quite right that in coming out of past recessions, the economy has often grown at real rates of 6 or 7 or even 8 percent. I think very few people expect that now because most expect that real interest rates will remain high. They will not, we hope, stay quite as high so they are now, but there is every prospect that we will be fighting high real interest rates across the economy as we come out of this recession.

Senator KENNEDY. You talk about a reduction in the deficits in terms of either reducing spending or increasing taxes. We have seen in the administrations policy an interesting reversal of this—a massive tax reduction and assurances to the American people that we would not have any tax increases.

Then we had the tax increases of last summer and then the increase with the gas tax in December.

Is it your belief that—as it is mine—that we probably will see the administration proposing some tax increases for the American people, given this current economic situation, in the period of the future months or years?

Dr. RIVLIN. I do not want to second-guess the President. I am not very good at that. But as you look at the magnitude of the deficits facing us in the next several years, tax increases as well as spending cuts will have to be considered very seriously.

Senator KENNEDY. You would not be surprised?

Dr. RIVLIN. No, I would not be surprised.

Senator KENNEDY. How fast do you think that we could reasonably grow and what changes in course would be required for that?

Dr. RIVLIN. That is a very hard question. I think there is probably very little that the Congress could do to speed up the growth. From the point of view of fiscal policy, the normal response is to cut taxes or increase spending in order to stimulate the economy. That is what we did in 1975–76. Yet, that option is really not available to any significant extent right now, because the deficit is already so large and because of the fear that continuing large deficits are a threat to the recovery.

The other lever is monetary policy. If the Federal Reserve were to do what Federal Reserves have done in the past—namely, to provide more rapid monetary growth—I think it clearly could stimulate recovery, but at the risk of higher future inflation.

Senator KENNEDY. What is the utilization in terms of plant capacity?

Dr. RIVLIN. The rate is 69 percent—lower than it has ever been.

Senator KENNEDY. Could we have a reduction—hasn't historically the interest rates been maybe, 2, 3 percent points above inflation?

Dr. RIVLIN. Clearly there is room for growth. The question is what the future cost of this growth would be: Too rapid now, will you have future inflation?

Senator KENNEDY. If we restored the historic relationship between interest rates and the rate of inflation, would it be 2 or 3 points above the rate of inflation? What would that mean in terms of a reduction in unemployment?

Dr. RIVLIN. In the first place, we do not really know what monetary policy would be required to get us there. I do not know, and I do not think Paul Volcker knows.

Senator KENNEDY. That is interesting. I think millions of people are trying to buy homes and small businesses are trying to keep afloat.

Let's go on.

Dr. RIVLIN. To follow what I said before: Bringing real interest rates down to their historic levels would take very rapid increases in the money supply and indeed, might, not be possible. It might even be self-defeating. The problem is inflationary expectations. If one were to have rapid increases in the money supply in the hope of bringing down interest rates, it might not work. On the other hand, it might make people so nervous about inflation that the effect would be higher long-term interest rates, rather than lower ones. It is a very dicey situation.

Senator KENNEDY. Could there not be some reduction in the interest rate without seeing a significant expansion on the money supply that could provide some economic growth, given the vast underutilization of plant capacity and the vast underutilization of American economic resources?

Dr. RIVLIN. I do not know that we have tools for bringing down interest rates other than manipulating the monetary aggregates and the monetary base.

Senator KENNEDY. Can you give us some economic analysis of what the implications are if they brought it down another point or two?

Dr. RIVLIN. If they brought down interest rates another point or two?

Senator KENNEDY. Yes.

Dr. RIVLIN. We expect that interest rates would come down. They already do seem to be headed down. But another 1 percentage point or so on the nominal rates is certainly not out of the realm of possibility and that is partly what one is counting on to sustain the recovery. But inflation is also dropping, so that means real interest rates remain high.

Senator KENNEDY. I have a final point I would like to develop with you because I am not sure it is completely understood, either by the Congress or the American people and it is a point that Senator Quayle talked about and it is very important. That is the cost of unemployment in terms of the deficit.

The figure that you and Senator Quayle discussed was an approximate cost of about $30 billion for each percent of unemployment and we have now seen growth of unemployment in the last 18 months from 7.4 percent up to 10.8. If those people that were working 18 months ago were still working today, how much would the deficit actually be reduced, just in approximate numbers?

Dr. RIVLIN. Well, if you had 3 percent less unemployment, you must have, roughly speaking, $90 billion less deficit. But that means you would have the much faster—growing economy that goes with the reduction in unemployment.

Senator KENNEDY. There are those who think that, given the underutilization of plant capacity that we consider be attentive to the needs of the unemployed without reigniting inflation. As I understand the mathematics of it there would be a $90 billion reduction in the Federal deficit if we had the number of Americans working today that were working 18 months ago. That is something that we ought to keep in mind.

I want to personally thank you again for your service to the Congress and for your responses today. We are all coming from different vantage points. But I believe there is no greater responsibility that we have today, other than avoiding the possibilities of nuclear war confrontation and escalation—than the recovery of the American economy. Those are the two overriding questions I see for this Congress, and I am pleased we are focusing today on the enormous need of the unemployed.

I read an interesting article recently about what the unemployment rate means in terms of family breakups, in terms of growth in alcoholism, child abuse, runaway children, and the whole range of social implications. I think each of us has seen it in our own States. I am not only talking about figures but talking about human beings and families and children and grandparents. We have a major responsibility. I want to express my appreciation to you for your help and assistance to the Congress as we try to find solutions.

Thank you very much.

Dr. RIVLIN. Thank you very much, Senator. Let us know if there is anything we can do for the committee as it proceeds.

Senator KENNEDY. We will.

Senator QUAYLE. I will be following up on working with you and your staff on getting criteria on those labor-intensive programs that we have.

I want to thank you and see you in a few weeks in the Budget Committee.

[Subsequently, the following information was received for the record:]

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WASHINGTON, D.C. 20510

January 13, 1983

Mrs. Alice Rivlin
Director
Congressional Budget Office
U.S. Congress
Washington, D.C. 20515

Dear Mrs. Rivlin:

Thank you very much for your testimony before the Subcommittee on January 12. In answer to a question from Senator Quayle, you stated that each 1% reduction in the unemployment rate has a positive impact of around $28 billion on the Federal budget. I have received a number of questions on the following line: As we can employ 1% of the workforce in PSE programs for $11 to $15 billion, would not such a PSE program actually reduce the deficit because the cost would be more than offset by the $28 billion reduction in the deficit?

Any help you can give me in answering such questions would be appreciated. I would appreciate an early response so that this question and answer could be included in the hearing record.

Sincerely,

Bob Guttman
Counsel
Subcommittee on Employment
and Productivity

BG/mks

Response to Senator Quayle's Question Regarding the Effect of Unemployment on the Budget (Submitted in writing on January 31, 1983 for the Record of the January 12, 1983 Hearing)

Changes in economic conditions, including the level of unemployment, have substantial effects on the federal budget, and small changes in economic performance can affect the deficit dramatically. Increases in unemployment are usually a symptom, or a result, of reductions in real economic growth, however. It is this lower growth that is primarily responsible for the budgetary changes associated with increased unemployment. Based on the economy in mid-1982, the CBO has estimated that a reduction in the growth of GNP sufficient to produce a one-percentage-point increase in the unemployment rate would be associated with an increase in the annual federal deficit of from $26 billion to $40 billion.

The primary effect of reduced real growth and higher unemployment on the federal budget is to reduce federal revenues. Federal tax receipts decline in part because unemployed workers suffer reductions in earnings and therefore pay less in taxes, but primarily because of other changes. For example, the number of hours worked by those who remain employed tends to fall in periods of high unemployment, and wage increases generally are moderated. These factors reduce personal incomes and, thus, federal tax revenues. Business earnings also fall during periods of reduced growth, lowering corporate tax receipts. In analyzing the economy and budget as they appeared in September 1982, the CBO estimated that a reduction in growth sufficient to cause a one-percentage-point increase in the unemployment rate was generally associated with about a $20 billion to $30 billion annual reduction in federal revenues.

Reduced real economic growth and higher unemployment affect federal expenditures by increasing outlays both for unemployment insurance and for other federal programs. An increase of one percentage point in the overall jobless rate was estimated to increase outlays for unemployment insurance by $3 billion to $4 billion per year. Other federal assistance programs also respond to changes in real growth and unemployment, but with more of a lag. The number of low-income persons eligible for Medicaid, food stamps, and cash assistance payments grows as unemployment rises. Social Security outlays increase somewhat with the unemployment rate, since persons who are eligible for benefits on the basis of age or medical condition are drawn onto the benefit rolls in increasing numbers. Together, yearly outlays for these programs increase by about $1 billion for each one percentage point increase in the unemployment rate. In addition, annual federal interest costs increase by roughly $2 billion to $5 billion because of higher deficits resulting from increases in spending and reductions in revenues that occur during the year.

Some have suggested that reducing unemployment one percentage point by hiring jobless workers in public service employment (PSE) might actually reduce the federal deficit because such a program would cost only about $15 billion compared to the $26 billion to $40 billion budgetary cost of that higher unemployment. Unfortunately, that is not the case. The confusion occurs because these two sets of figures are inappropriately used in the same context.

Increases in the incomes of PSE workers would increase Gross National Product (GNP) both directly and indirectly through the effects of their increased spending. While saving a portion of their income, the PSE workers would likely increase their purchases of goods and services which, in turn, would increase product sales, add to employment in the affected industries, and increase the incomes of other workers. In the first year, a $15 billion jobs program could increase GNP by about $20 billion; GNP would also increase in later years as a result of this program, but by smaller amounts. This increase in GNP would, in turn, increase federal tax revenues and reduce other federal outlays, on net, by between $5 billion and $10 billion in the first year, and by lesser amounts in later years. Consequently, it is very unlikely that, even in the long run, the budgetary gains that could result from the PSE program would be sufficient to pay for the original cost of the program. On the other hand, the increase in real economic growth sufficient to reduce unemployment by one percentage point--about an $80 billion increase in GNP--would be much larger than that attributable to a $15 billion jobs program.

Senator QUAYLE. Our next witness is a panel of the National League of Cities and the National Association of Counties. The major of Cleveland, George Voinovich, and the chairman of the Board of County Commissioners of Kane County, Ill., Frank Miller.

Senator KENNEDY. Mayor, I want to express my appreciation and welcome you as well.

Senator QUAYLE. Mayor, welcome.

You are the leadoff witness and you can proceed at will.

STATEMENTS OF GEORGE VOINOVICH, MAYOR, CLEVELAND, OHIO; AND FRANK MILLER, CHAIRMAN, BOARD OF COUNTY COMMISSIONERS, KANE COUNTY, ILL.

Mr. VOINOVICH. Thank you very much.

I appreciate the opportunity to appear here and I am speaking to you today as the second vice president of the National League of Cities. Our organization represents some 15,000 cities throughout this country.

We appreciate the opportunity to discuss with you potential options for dealing with our Nation's unprecedented unemployment problems early in this congressional session. I congratulate you for getting with it fast.

The need for governmental action is clear. As we have just heard, the course of action—where we are going to go—will be very difficult to determine.

As a Harvard law professor recently stated in another context, "It is a particularly American habit that we oscillate between panaceas."

In the 1960's, public works construction was the apparent answer to unemployment; in the seventies public service jobs; in the eighties at least so far, many are looking to the private sector for answers.

The League of Cities has no special wisdom and can offer no cure-all. The best we can do is examine what we see to be the context of the problem and suggest responses that, separately or in combination, are appropriate for this time.

We all know about the 10.8 percent national unemployment. In my city, it is 16 percent. In neighboring Lorain County, it is 26 percent. In Rockford, Ill., and Gadsden, Ala., and Duluth, Minn., it is over 20 percent. Furthermore, predictions are that these extraordinary rates are unlikely to decline substantially in the foreseeable future, certainly not before 1984 and perhaps not even then.

Just yesterday we had the bad news that a major manufacturing company in our area is laying off 650 individuals. I have to say, as the mayor of Cleveland, I think things are going to get worse before they get better.

I think one of the things that needs to be brought before the Congress, and I think Senator Kennedy made reference to this, and so have you, Senator Quayle, that these are not numbers; they are human beings. We are also confronted with a stale economy that features interest rates that are still too high and a Federal deficit that threatens our Nation's economic recovery. The problem is compounded by what appears to be a significant structural change in American industries as well as changes in our work force.

In addition, I think this is something that should be talked about more often, that we have a worldwide recession—depression. In addition to that, the competition in the world market today is a lot keener than it was, say, 10 years ago. Everyone is struggling for their piece of the pie.

What do we do with the millions of people who are not going back to work? We know there are millions of Americans that are not going back to work.

What do we do with the one out of five workers in the current work force who are functionally illiterate? What do we do about these people that without retraining are never going to find a job?

While the recently passed Job Training Partnership Act is a good and innovative piece of legislation, it addresses only a portion of the problems facing the American work force and much remains to be done. To those who say things are getting better, I say what is happening to our unemployed Americans who are suffering perhaps irreparable psychological and financial damage?

Senator, you made reference to those people. That is a major concern to anyone. Let's first touch on the cost of any Federal job creation program.

I think it is accepted, and I think you made mention of it, that for every 1 percent of unemployment, it costs us about $28 billion. Some of these things that we may be doing or suggesting may not necessarily result in a net loss to the Federal Treasury or a net increase in the deficit. There are some tradeoffs in some of these programs.

The two most obvious approaches to alleviate unemployment are to create a new but traditional public works program and to reestablish a public service jobs program.

The arguments against a public works program, which have some legitimacy, are that the time lag between development of a legislative proposal and implementation is too long; there is too little new job creation; and the jobs are too expensive.

The time lag argument is less relevant given current long-term economic forecasts; I don't think that is something we have to worry about. I think we are going to be in this a long time; the other arguments are generally valid.

On the other hand, a PSE program is the quickest and least expensive method of job creation.

The question we have heard from Congress is, Can local governments gear up quickly? The answer is, in my opinion, an unqualified yes, especially if we are talking about maintaining, repairing and rehabilitating public buildings, installing ramps for the handicapped, repairing and rehabilitating water systems, filling potholes, upgrading home security for the elderly, carrying out some of the other traditional programs we have in the cities. I think that program should be the top priority of this session of the Congress.

In Cleveland, a city that has been hit as hard as any by this recession, we developed such a model last year. By combining community development block grant funds, CETA youth employment funds, with in-kind services supplied by several city departments, we were able to employ about 1,200 Clevelanders, chosen by lottery, for several months, starting in April and ending in October.

The program led to the beautification and increased cleanliness of my city. Over 4,300 vacant lots were cleared of debris, cut and cleaned, and 160 of them were barricaded to prevent further dumping on the lots. You may say that does not sound like much, but many of those employed were grateful for a chance to work and they worked very hard during the program. In an area that traditionally is viewed as make-work by most taxpayers, we received nothing but compliments by our citizens who were appreciative of the cleanup effort by the city.

Every time I went out to those sites, the first question was, Mayor, can you give me a job; can you continue this program? And my answer, looking them in the eye, was, no, we cannot do it because we have not got the money.

In addition to simply cleaning up health hazards and unsightly lots, we put our people to work in a program well known throughout the country, known as the summer sprout program. We turned 187 plots of land into production, ultimately harvesting 8.5 tons of produce. About one-half of the produce was turned over to Cleveland's Hunger Task Force for distribution to the various food kitchens that have sprung up this past year.

All you have to do is come to one of our big cities and spend 3 or 4 hours there and you will find out what the situation is. You can go to the Salvation Army and find out at this time they do not have only three-fourths of their beds occupied. They are filled up. We are fortunate in Cleveland; we went to our community foundations and they came up with about a million and a half dollars to open up some facilities for those who need shelter.

It is a bad situation out on the streets of this country. It was a small seasonal program that we had. As I mentioned, it combined Federal and local dollars. It was a small measure of hope and self-esteem for those who were involved in the program. It also instilled a sense of pride in those individuals that were out cleaning up our cities. It was a program that was put together relatively quickly, administered fairly and the overhead was minimal.

This is one type of light, short-term public employment I recommend for your consideration. In other words, every city in this country where you have the unemployment that we have in cities like Cleveland could put together this kind of program very fast. And, it would have a significant impact on the people in our cities. It also would do a great deal for our cities because we put people to work on what we consider constructive things.

There are some people who would characterize these programs as band-aids. Someone that I talked to up high in the administration said band-aids have been known to keep people from bleeding to death. I think the condition is such that if you want to call them band-aid programs or not, they are needed today in this country.

In addition, I think we need to reconsider the PSE type program for areas of chronic high unemployment. Instead of a countrywide PSE, I am suggesting it be limited to areas where unemployment exceeds 8 percent. The legislation can have a fixed life of 2 or 3 years. I would also suggest that participants be paid wages consistent with those paid in the geographic area where the employment occurs. It should be administered locally by units of general purpose local governments.

In my city, people need jobs and my city administration needs their services. We appreciated PSE when it existed and were sorry when it ended. If putting additional employees to work in the public sector is philosophically upsetting to some, I would suggest that standing in a free cheese line or losing your house because you cannot pay your mortgage payments is a lot more upsetting to many people. To not have such a program I believe is penny wise and pound foolish. I think a Nation's first line of defense is to maintain the loyalty, respect and confidence of its citizens.

More important, this country's greatest resource is its people. We cannot allow them to go bankrupt. If we do, they will be like so many businesses that have gone bankrupt. They will never come back.

I think we need to do something and that is to show these people in our Nation that are unemployed that somebody cares. There are a number of other actions Congress can take that will have a positive impact on unemployment. I suggest, for example, and we suggest, enterprise zones. I know there is some controversy about it. But if somebody took the time to see what has happened in cities throughout this Nation to prepare for taking advantage of enterprise zone legislation, they would be overwhelmed.

In my particular community, I have never seen the public, private, labor, neighborhood communities come together just with the prospect of maybe being eligible for a Federal enterprise zone. I know some say that we do not want an experimental program. I suggest experimental programs are good programs. I think too often Congress and previous administrations have gotten into programs that they were not sure were going to work and they stayed in them too long; and I think the time has come for some experimentation.

Some other suggestions, Congress could consider adding a second tier of funding in the general revenue-sharing program. A separate fund, distributed to local governments on the basis of severity of unemployment, could be used as seed money by hard-pressed jurisdictions to stimulate economic growth in the private sector.

Targeted procurement: Several years ago, Congress repealed the Maybank amendment, which exempted DOD from participation in targeted procurement programs mandated of all other Federal agencies and set aside several billion dollars of Defense appropriations for procurement programs targeted to labor surplus areas. In other words, we have money that is going to be spent. Why not spend it in areas where we have a labor surplus? I think this program should be continued and expanded. As we argued at the time of the repeal, the Defense Department's nonstrategic procurement needs are so varied, everything from shoe laces to jeeps, that they can surely be met by some jurisdictions with high jobless rates. There would be no costs to the Treasury. As a matter of fact, we developed in Cleveland a Defense procurement business office. What the Defense Department has found, with the labor surplus program, many more people with the aid of agencies like we have in Cleveland are getting into going after Defense contracts. Because of that competition, brings the price down; so that it has two benefits: One, to the labor surplus area and it also has benefits to the Defense Department.

Another program tried in several States is to explore more creative uses of unemployment insurance. For example, as I say, three States have developed programs whereby workers whose hours are reduced will qualify for a percentage of unemployment compensation. Such a program gives employers another option than simply laying off employees.

Cutting redtape: Congress must take a hard look at ways to push existing dollars in the pipeline through the system faster. For example, you recently passed the 5-cent gasoline tax increase which will help State and local governments repair their roads and bridges. In my State we also expect some increased employment. But Congress did nothing to short circuit the process that it has to bring a program to fruition. It takes at least 2 years to get a construction project from the drawing stage to the letting out of a contract. There is no reason why they cannot look at the dollars available to them and put them on a critical path to push the dollars out to our communities instead of sitting on them, as has been the case.

For example, there are millions of dollars out there for construction of new public housing. Most jurisdictions do not want to build new public housing. Their top priority is to rehabilitate the already existing public housing and if Congress could get the message over to HUD that that is what they want to see happen, we could take those dollars that are right now just sitting there and put them to work in modernizing thousands of public housing units throughout the United States.

I mentioned at the outset of my statement that we believe we are seeing profound shifts in the nature of work. We are moving from a manufacturing economy to something else, based largely on high technology. It is here that we believe that government at all levels can encourage the private sector to play an important role in assuring a brighter future.

Congress and the administration, however, have got to begin looking at a much larger picture. I think that is really the challenge you have today. Yes, we have this problem that needs to be addressed immediately, but what are we going to have as a nation 10 years from now, or 20 years from now?

I think the Congress and the administration should start to consider developing a long range and, if possible, nonpartisan, economic strategy for this Nation. I think that this Nation must realize that while some businesses that are inherently unproductive in the world marketplace will fade away, others are vital to our national self-interest. For example, take the steel industry. You might say that is self-serving because we have a lot of steel in our area. For this Nation to give the steel industry away, if we get ourselves into a conventional war, who is going to provide the steel for that conventional war? Are we going to get it from South Korea or Japan or from the European nations? I think that those kinds of questions need to be answered and they need to be answered now.

As I said, we need a national economic strategy that will help make those industries more productive, more competitive, and protected to some extent from foreign competitors that are subsidized by their nation's government. The reindustrialization of certain key industries is both overdue and critical to our future.

At the same time it is important to foster continued economic growth in those industries of America that are currently shaping the world marketplace; in particular, the $114 billion electronics industry, for one, if you sat down and looked at what we are encouraging and what we are discouraging, maybe we have it the wrong way, but some of the industries we ought to be encouraging, because they have not the political clout, are not getting the support. The industries that maybe we ought to let go are receiving the subsidies. These are the questions. I do not know how you do that between Congress and the administration or what vehicle you come up with to develop that long-range policy, but it has to be done.

As it was mentioned earlier in this testimony, we have got to get the economy going in the Nation. But it is easier said than done. I do not think that the short-term approaches that have been used during the last dozen or so years are going to work any more. We are in a different ball game. We are in a different world. Whether our economic adjustment is managed or whether it is allowed to be subject to the whims of other governments or forces, there is sure to be a lot of pain.

As I earlier noted, surely, many of the workers in steel mills, the tooling industry and probably in automobile manufacturing, notwithstanding an improved economy—they are not going back to work in their old plant. The economy is changing, changing very rapidly, and a lot of people are going to continue to be hurt. The question is: What do you do about those people? Those people are being hurt today. It seems to me you have to do something about that hurt.

At the same time you need to be doing something about creating new places for them to go to work and at the same time providing them with training so that they can take advantage of those jobs that are going to become available as we see the country turn around. I think it will be a real long progress.

I am not as smart as Dr. Rivlin but I think this thing is—we are in a cycle and I don't think it is going to get better fast. I think even Senator Kennedy, in your questions of Dr. Rivlin—she is talking about 10 percent and we get sort of mushy, don't we? We might have 10 percent in this country for a long time. What are we going to do for these people in the meantime? We just cannot let them go. I know you have a tough job to try to decide which direction to take. Senator Kennedy said we have to change the course. I would suggest that the President tack.

Mr. Chairman, could the testimony that I did not read go in the record?

Senator QUAYLE. Certainly.

[The prepared statement of Mr. Voinovich follows:]

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STATEMENT OF

THE HONORABLE GEORGE VOINOVICH

MAYOR OF CLEVELAND, OHIO

on behalf of

THE NATIONAL LEAGUE OF CITIES

on

FEDERAL JOB CREATION PROGRAMS

before the

SUBCOMMITTEE ON EMPLOYMENT AND PRODUCTIVITY

COMMITTEE ON LABOR AND HUMAN RESOURCES

UNITED STATES SENATE

January 12, 1983

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Mr. Chairman and members of the Subcommittee, I am George Voinovich, Mayor of Cleveland, Ohio and Second Vice President of the National League of Cities. I am here to testify on behalf of the League and the 15,000 cities it represents.

We appreciate the opportunity to discuss with you potential options for dealing with our nation's unprecedented unemployment problems early in this congressional session. The need for governmental action is clear. What is less clear is the appropriate course of action.

As a Harvard law professor recently stated in another context, "It's a peculiar American habit that we oscillate between panaceas." In the 1960's, public works construction was the apparent answer to unemployment; in the 1970's public service jobs; in the 1980's, at least so far, many are looking to the private sector for answers. Each approach is legitimate, but none is perfect.

The League of Cities has no special wisdom and can offer no instant cure-all. The best we can do is examine what we see to be the context of the problem and suggest responses that, separately or in combination, are appropriate for this time.

As of last Friday, the national unemployment rate was 10.8 percent. In Cleveland, the most recent figure is 16 percent; in neighboring Lorain county it is 26 percent; in Rockford, Illinois, Gadsden, Alabama, and Duluth, Minnesota, it is nearly 20 percent. Furthermore, predictions are that these extraordinary rates are unlikely to decline substantially in the foreseeable future, certainly not before

1984 and perhaps even later. And we must never forget that these numbers really represent people, not statistics or charts.

We are also confronted with a stale economy that features interest rates that are still too high and a federal deficit that threatens our nation's economic recovery. The problem is compounded by what appears to be a significant structural change in American industries as well as changes in our workforce. What do we do with the millions of people who are not going back to work? What do we do with the one out of five workers in the current workforce who are functionally illiterate, the increasing number of women entering the labor force, and an aging workforce.

While the recently passed Job Training Partnership Act is a good and innovative piece of legislation, it addresses only a small part of the problems facing the American workforce. To those who say things are getting better, I say what is happening to our unemployed Americans who are suffering perhaps irreparable psychological and financial damage?

Since the federal deficit is of major concern to everyone, let me first touch upon the costs of any federal job creation initiatives. It is accepted theory, if not fact, that every one percent of unemployment costs the federal government $28 billion in lost revenues and increased expenditures. (There are no reliable estimates of the accompanying costs to states and local governments. I have no doubt, though, they are equally significant.)

On the other hand, if Congress provided $28 billion for a public service jobs program, employing 2.8 billion people who are now unemployed, the net reduction in federal revenue losses and outlays would be double that amount--$56 billion--and the unemployment rate would decline by 2.8 percent.

Let me add quickly that I am not proposing a $28 billion PSE program. It must be emphasized, however, that not every expenditure results in a net loss to the federal treasury or a net increase in the deficit.

The two most obvious approaches to alleviate unemployment are to create a new but traditional public works program and to re-establish a public service jobs program.

The arguments against a public works program, which have some legitimacy, are that the lag time between development of a legislative proposal and implementation is too long; there is too little net new job creation; and the jobs are too expensive. While the lag time argument is less relevant given current long term economic forecasts, the other arguments are generally valid. On the other hand, a PSE program is the quickest and least expensive method of job creation.

The question we've heard most often from Congress is, "can local governments gear up quickly?" The answer is an unqualified "yes", especially if we are talking about maintaining, repairing, and rehabilitating public buildings, installing ramps for the handicapped, repairing, and rehabilitating water systems, filling potholes, upgrading home security for the elderly, carrying out public health programs for the immunization of children, and the like. Such a program should be your first priority in this new session.

In Cleveland, a city that has been hit as hard as any by this recession, we developed such a model last year. By combining Community Development Block Grant funds, CETA Youth Employment funds, with in-kind services supplied by several city departments, we were able to employ 1,217 Clevelanders, chosen by lottery, for several months starting in April and ending in October.

This program led to the beautification and increased cleanliness of my city. Over 4,300 vacant lots were cleared of debris, cut and cleaned. 160 of them were barricaded to prevent further illegal dumping. That may not sould like much, but many of those employed were grateful for a chance to work and they worked very hard during the program. In an area that traditionally is viewed as "make-work" by most taxpayers, we received nothing but compliments by our citizens who were appreciative of the clean up effort by the city. Many of those employed expressed a desire to continue on in the program, which could not be accommodated due to limitations on the amount of money that was available.

In addition to simply cleaning up health hazards and unsightly lots, many of the workers were also assigned to our "Summer Sprout" program. The idea of urban gardens has been around for awhile, but we took the opportunity to expand the program far beyond its original scope. We turned 187 plots of land into production, ultimately harvesting 8.5 tons of produce. About one-half of the produce was turned over to Cleveland's Hunger Task Force for distribution to the various food kitchens that have sprung up this past year.

Other employees were assigned related tasks in other divisions, most important of which was a large contingent in the Department of Parks and Recreation. There, they performed such tasks as cutting grass, pruning trees and hedges, landscaping, tree planting and rubbish removal. Our parks have never look so good.

This was a small seasonal program, one that was made possible by a combination of federal and local dollars. But for 1,217 people it was one small measure of hope and self-esteem. It was put together relatively quickly, administered fairly, and resulted in a city that was able to take a small step back in the right direction. This is one type of light, short term public employment program I would recommend for your consideration.

Another seasonal program, funded by a combination of federal and private dollars is the City of Cleveland home weatherization program. Over the space of one year 1,000 homes will be weatherized by 16 individuals who, previous to the program, were unemployed. Not only does the program employ people, but it also saves the elderly money on their fuel bills. Interestingly, it also formed a meaningful bridge between the young people who were doing the work and the elderly who benefited from their labor. This is a good program that can be emulated across the country.

Up to this point I have only been talking about short term, seasonal type public employment programs.

Notwithstanding its unpopularity, however, I think Congress has got to reconsider its view on a longer term PSE-type program for areas of chronic high unemployment. Instead of a countrywide CETA PSE, I am suggesting it be limited to areas where unemployment exceeds eight percent. The legislation can have a fixed life of two or three years. I would also suggest that participants be paid wages consistent with those paid in the geographic area where the employment occurs. It should be administered locally by units of general purpose local governments.

In my city people need jobs--and my city administration needs their services. We appreciated PSE when it existed and were sorry when it ended. If putting additional employees to work in the public sector is philosophically upsetting to some I would suggest that standing in a free cheese line or losing your house because you can't afford the mortgage payments is a lot more upsetting to many more people.

Let's put a limited PSE program back on the front burner.

There are a number of other actions Congress can take that will have a positive impact on the unemployment rate. For example:

Enterprise Zones. This is a worthwhile experiment that will cost the Federal government virtually nothing. Older cities, in particular, have large amounts of vacant or under-utilized land that could be used to create enterprise zones. This is an idea worth trying, and while certainly not the complete answer to economic development, can be an effective tool for cities to use to compete for jobs and new industry.

General Revenue Sharing. Congress should consider adding a second tier of funding in the general revenue sharing program. A separate fund, distributed to local governments on the basis of severity of unemployment, could be used as seed money by hard-pressed jurisdictions to stimulate economic growth in the private sector. Such activity has occurred with locally generated revenues in the recent past; but such revenues are in increasingly short supply.

Targetted Procurement. Several years ago, Congress repealed the Maybank Amendment, which exempted DOD from participation in targetted procurement programs mandated of all other federal agencies and set aside several billion dollars of defense appropriations for procurement programs targetted to labor surplus areas. We believe this program should be continued and expanded. As we argued at the time of the repeal, the Defense Department's non-strategic procurement needs are so varied--everything from shoelaces to jeeps--that they can surely be met by some jurisdictions with high jobless rates. There would be no costs to the Treasury.

In Cleveland we have attempted to help ourselves by creating the Greater Cleveland Government Business Office, again the result of a combination of federal and private dollars. This office is specifically designed to help local businesses target in on government contracts.

Unemployment Insurance. While the administration of unemployment insurance laws are largely state prerogatives, federal assistance encouraging states to explore more creative uses of unemployment insurance programs should be attempted.

For example, I understand that three states have developed programs whereby workers whose hours are reduced will qualify for a percentage of unemployment compensation. Such a program gives employers another option than simply laying-off employees.

Cutting Red Tape. Congress must take a hard look at ways to push existing dollars in the pipeline through the system faster.

For example, Congress recently passed the five cent gas tax increase which will help state and local governments repair their roads and bridges. In my state we also expect some increased employment in the construction industry. But Congress did nothing to "short circuit" the red tape in the construction approval process. It has taken, and will continue to take, at least two years to get a construction project from the drawings stage to letting out a contract for construction.

In the housing area we have a similar problem. If HUD would amend its policy to allow for the expenditure of new construction money for rehabilitation of existing units, as much as $46 million would begin to be spent in Cleveland during 1983.

I mentioned, at the outset of my statement, that we believe we are seeing profound shifts in the nature of work. We are moving from a manufacturing economy to something else, based largely on high technology. It is here that we believe government--at all levels--can encourage the private sector to play an important role in assuring a brighter future.

Congress and the Administration, however, have to begin looking at a much larger picture. I think that it is important for the Administration, aided or prompted by Congress, to develop a long term, non-partisan (if possible) economic strategy for the country. I think that this nation must realize that while some businesses that are inherently unproductive in the world marketplace will fade away, others are vital to our national self interest. I am not saying that we need, or should even consider, wholesale protectionist trade barriers. What I am saying is that there are some key industries, important to our national defense and economic independence that are in danger and must be protected.

We need a national economic strategy that will help make those industries more productive, more competitive and protected--to some extent--from foreign competitors that are subsidized by their nation's government. The reindustrialization of certain key industries is both overdue and critical to our future.

At the same time it is important to foster continued economic growth in those industries of America that are currently shaping the world marketplace. In particular, the $114 billion electronics industry, for one, is gradually coming to play the core role in the U.S. and world economy that autos played in the not too distant past. The development and use of new technology in more mature industries has the added benefit of making those older industries more productive, less costly and more attractive in the world markets. In related areas such as microelectronics, robotics and communications, America already has a substantial technological and marketing lead. It must strive to maintain that advantage. While those older, unsalvageable industries will follow the course economic nature has set for them, we should do all that we can to preserve and develop our national strengths.

We can't do all of this if in every new Administration and every new Congress some new economic game plan comes into vogue. It is time, I believe, for this nation to set its course over the long term and to make some tough choices, but most importantly develop a plan to insure economic vitality into the 21st century.

Whether the economy is managed or whether it is allowed to be subject to the whims of other governments or forces, there is sure to be a lot of pain. As I earlier noted, surely, many of the workers in steel mills, the tooling industry and probably in automobile manufacturing, notwithstanding an improved economy, will never go back to work in their old plant. The economy is changing--changing very rapidly--and a lot of people are going to continue to be hurt.

There was a recent article in a leading business magazine that made that point in the following way. The article discussed the Congressional decision to save gasoline, a decision resulting from the energy scare a decade ago. It goes on to state:

> "Take the downsizing of American automobiles, an energy-driven phenomenon much written about but only dimly understood. It began with the need to save

> gasoline. It is ending with a saving of everything --rubber, steel, glass, and above all, labor. Though few people realized it at the time, Congress, in legislating fuel consumption standards for American cars, committed itself to a radically different industrial structure. You downsized the American car to save gas, and you wound up downsizing not only the U.S. auto industry itself, but a substantial part of the industrial base that supported it. You saved gasoline. And you destroyed blue collar jobs." (Forbes, November 22, 1982)

So where do those workers go? Are they to be left to their own resources, or will this government attempt to retrain them to be productive and satisfied workers?

NLC recently adopted an employment policy, which I would like to submit for the record, calling for the provision of "tax incentives to encourage industrial investment in developing and expanding a skilled workforce." We think such incentives must at least parallel in magnitude the tax incentives offered industry for capital investments.

We'd like to see the private sector more actively involved in public education policy so that future generations are more adequately prepared for the jobs that will be available. We'd also like to see private corporations expand their training programs in skill shortage occupations beyond an individual company's own needs. Federal encouragement of such activities through tax incentives are appropriate.

Thank you for the opportunity to present our views. We look forward to working with you, this committee and the Congress in framing adequate responses to the many problems we face together.

Senator QUAYLE. Thank you very much, Mayor.

Mr. Miller?

Mr. MILLER. Mr. Chairman, members of the subcommittee, my name is Frank Miller. I am chairman, Board of Commissioners, Kane County, Ill., and vice-chair, Employment Steering Committee of the National Association of Counties, NACo. I am accompanied today by Jon Weintraub, legislative director of NACo.

I am here today on behalf of the counties that comprise the members of the National Association of Counties, NACo. The member counties of NACo represent 90 percent of our Nation's population and range from rural counties with populations of less than 5,000, to densely populated urban counties with populations over 1 million. These counties provide their citizens with a range of services from maintenance of roads and bridges, to employment and training, to health care, to jails.

Last year, counties sustained over a 20-percent reduction in Federal funding. The efforts that county governments made to maintain service levels despite funding cutbacks were tremendous while the full impact of the 1981 cuts have not been totally realized.

There is now a pervasive feeling among county governments that all of the "fat" has been eliminated. In 1981, cuts forced many counties to reduce employment, cut back on service hours, and services such as day care assistance and postpone badly needed investment in infrastructure repairs. Many counties have had to raise property taxes or sales taxes, a policy viewed unfavorably by citizens who receive, in return, a cutback rather than an increase in services. Counties are facing additional burdens as they strive to support the needy who are now ineligible for Federal AFDC and food stamps. Many counties foresee difficulty in maintaining the fiscal viability of county hospitals which provide services to many poor people who are ineligible for medicare and medicaid.

We are here today to support Federal job creation. We congratulate you, Mr. Chairman, for expediting these hearings. Why do we need a Federal effort for job creation? The answer is simple. Our Nation's unemployment rate is expected to reach 11 percent this year. Minority youth unemployment is at a staggering 50 percent. The needs of these people for jobs must be met.

There are counties in Michigan and California that are nearly at 25 percent.

In the interest of time, I will omit references to a Business Week article on the Urban Institute Report on the cost of neglect to the maintenance of the country's infrastructure, which are uniquely county responsibilities, streets and highways, bridges, sewers, water systems, and jails.

The current crisis is far more severe than in the past. For a series of forces is now at work that calls into question the ability of local governments throughout the Nation—not only in the traditionally depressed Northeast and Midwest but even in the fast-growing Sun Belt—to provide the infrastructure needed for economic growth.

If State and local government cannot find a way out of this bind, the effects will be devastating. It is perfectly true that the private sector has carried the responsibility for economic growth throughout the history of this Nation. But at virtually every stage of the

Nation's history, growth was dependent on a balance between private and public investment.

Simply stated, we see a Federal job creation effort as the first Federal step to provide jobs needed for the necessary repair of our Nation's basic infrastructure and to spur economic growth.

On general sharing, Mr Chairman, as a member of the Budget Committee, we would welcome your support for increasing funds for general revenue sharing in function 850. This would present the Senate Finance Committee with a variety of options to choose from, including a permanent countercyclical fiscal assistance program targeted to cities and counties with the greatest need.

Funding for general revenue sharing has not increased since its inception in 1973. An increase in funds would result in both direct and indirect job creation and offset local tax increases.

Relative to public service employment, although much maligned, public service employment is the most cost effective and quickest way to put people to work. Counties would welcome a program that sets aside enough funds for supplies and materials. Jobs created could be short term and meet the much needed "soft public works" demands of our Nation. With close to 11 percent unemployment, eligibility should be primarily determined by a duration of unemployment test.

In considering any type of job creation, I refer back to the examples in my own county of Kane. We obtained many positive results through the public service employment program under the CETA Act. The program put people to work in meaningful jobs. Through work with local government agencies social service agencies that had well established records and community acceptance, such as the support of United Way, services were expanded and doors were kept open. Community improvement projects which would not have otherwise been accomplished were completed. In the closing months of this program, we were able to place 75.4 percent of those who terminated.

I have examples here. However, in the interest of time, I will omit the specifics of my text.

Through the Youth Community Conservation Improvement Project, maintenance and grounds work services were provided through the community housing authority in the refurbishing of low-income housing throughout one of our cities.

Looking at the immediate future, counties, my own included, face projects that are both capital and labor intensive. Kane County needs to expand its 104-cell jail. We are considering the addition of a new wing to the jail at a cost of about $1 million for 40 additional cells. The jail problem faces every county in this country. It is not make work and is a cost which we must incur.

Along the same lines, the judiciary system is growing. Three new judges have recently been appointed to our Circuit. We face a need to expand our court facilities. We are in the process of buying an unused school building. It will cost about $250,000 with another $300,000 needed to remodel it for the court's purposes. Both of these are needs which have been imposed on us by others, and which we are mandated to provide.

These, and many similar projects, would enable counties to provide much needed services and facilities while accomplishing the goal of putting the Nation back to work, not "make work," but meaningful and satisfying work. These projects require dollars which counties don't have but must spend to meet Federal and State mandates.

We would also welcome an increase in funds beyond the $25 million recently provided for title III of the Job Training Partnership Act. Through these suggestions NACo advocates a basic premise relating to job creation in that we support paying people to work instead of not to work.

The unemployed person who gets a job from one of these programs doesn't care if it doesn't come at the exact time in the cycle to suit the needs of an economist's theory. It is a job that helps feed a family that would otherwise be hurting.

We advocate Federal job creation at times of extremely high unemployment, yes, we would prefer jobs being created in the private sector. But the Nation cannot afford to wait until that happens.

The real benefit of any jobs creation program can be seen from a study done by the chamber of commerce that showed for 100 industrial jobs in the community, it means that there would be 68 nonplanning workers employed. I cannot translate that into soft match or soft public works, but it would seem to me that the figure would approach that quite closely; and I would ask the Senator, the chairman, if he would investigate with Alice Rivlin what kind of a side benefit would come from public service work that may be created in programs that would come out of the hearings of this committee.

Senator QUAYLE. Thank you very much, Mr. Miller. The full text of your testimony will be inserted in the record.

[The prepared statement of Mr. Miller follows:]

STATEMENT OF FRANK MILLER, CHAIRMAN, BOARD OF COMMISSIONERS, KANE COUNTY, ILLINOIS AND VICE-CHAIR, EMPLOYMENT STEERING COMMITTEE OF THE NATIONAL ASSOCIATION OF COUNTIES*, BEFORE THE SUBCOMMITTEE ON EMPLOYMENT AND PRODUCTIVITY OF THE SENATE COMMITTEE ON LABOR AND HUMAN RESOURCES.

MR. CHAIRMAN, MEMBERS OF THE SUBCOMMITTEE, MY NAME IS FRANK MILLER. I AM CHAIRMAN, BOARD OF COMMISSIONERS, KANE COUNTY, ILLINOIS AND VICE-CHAIR, EMPLOYMENT STEERING COMMITTEE OF THE NATIONAL ASSOCIATION OF COUNTIES (NACO). I AM ACCOMPANIED TODAY BY JON WEINTRAUB, LEGISLATIVE DIRECTOR OF NACO.

I AM HERE TODAY ON BEHALF OF THE COUNTIES THAT COMPRISE THE MEMBERSHIP OF THE NATIONAL ASSOCIATION OF COUNTIES (NACO). THE MEMBER COUNTIES OF NACO REPRESENT 90% OF OUR NATION'S POPULATION AND RANGE FROM SMALL RURAL COUNTIES WITH POPULATIONS OF LESS THAN 5,000 TO DENSELY POPULATED URBAN COUNTIES WITH POPULATIONS OVER 1 MILLION. THESE COUNTIES PROVIDE THEIR CITIZENS WITH A RANGE OF SERVICES FROM MAINTENANCE OF ROADS AND BRIDGES, TO EMPLOYMENT AND TRAINING, TO HEALTH CARE, TO JAILS.

LAST YEAR, COUNTIES SUSTAINED OVER A 20% REDUCTION IN FEDERAL FUNDING. THE EFFORTS THAT COUNTY GOVERNMENTS MADE TO MAINTAIN SERVICE LEVELS DESPITE FUNDING CUT BACKS WERE TREMENDOUS WHILE THE FULL IMPACT OF THE 1981 CUTS HAVE NOT BEEN TOTALLY REALIZED, THERE IS NOW A PERVASIVE FEELING AMONG COUNTY GOVERNMENTS THAT ALL OF THE "FAT" HAS BEEN ELIMINATED. THE 1981 CUTS FORCED MANY COUNTIES TO REDUCE EMPLOYMENT, CUT BACK ON SERVICE HOURS AND SERVICES SUCH AS DAY-CARE ASSISTANCE AND POSTPONE BADLY NEEDED INVESTMENT IN INFRASTRUCTURE REPAIRS. MANY COUNTIES HAVE HAD TO RAISE PROPERTY OR SALES TAXES, A POLICY VIEWED UNFAVORABLY BY CITIZENS WHO RECEIVE, IN RETURN, A CUTBACK RATHER THAN AN INCREASE IN SERVICES. COUNTIES ARE FACING ADDITIONAL BURDENS AS THEY STRIVE TO SUPPORT THE NEEDY WHO ARE NOW INELIGIBLE FOR FEDERAL AFDC AND FOOD STAMPS. MANY COUNTIES FORESEE DIFFICULTY IN MAINTAINING THE FISCAL VIABILITY OF COUNTY HOSPITALS WHICH PROVIDE SERVICES TO MANY POOR PEOPLE WHO ARE INELIGIBLE FOR MEDICARE AND MEDICAID.

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*THE NATIONAL ASSOCIATION OF COUNTIES IS THE ONLY NATIONAL ORGANIZATION REPRESENTING COUNTY GOVERNMENT IN THE UNITED STATES. THROUGH ITS MEMBERSHIP, URBAN, SUBURBAN AND RURAL COUNTIES JOIN TOGETHER TO BUILD EFFECTIVE, RESPONSIVE COUNTY GOVERNMENT. THE GOALS OF THE ORGANIZATION ARE TO: IMPROVE COUNTY GOVERNMENT; SERVE AS THE NATIONAL SPOKESMAN FOR COUNTY GOVERNMENT; ACT AS A LIAISON BETWEEN THE NATION'S COUNTIES AND OTHER LEVELS OF GOVERNMENT; ACHIEVE PUBLIC UNDERSTANDING OF THE ROLE OF COUNTIES IN THE FEDERAL SYSTEM.

WE ARE HERE TODAY TO SUPPORT FEDERAL JOB CREATION. WE CONGRATULATE YOU, MR. CHAIRMAN, FOR EXPEDITING THESE HEARINGS. WHY DO WE NEED A FEDERAL EFFORT FOR JOB CREATION? THE ANSWER IS SIMPLE. OUR NATION'S UNEMPLOYMENT RATE IS EXPECTED TO REACH 11% THIS YEAR. MINORITY YOUTH UNEMPLOYMENT IS AT A STAGGERING 50%. THE NEEDS OF THESE PEOPLE FOR JOBS MUST BE MET. WE CANNOT WAIT. BUSINESS WEEK REPORTS THAT:

> "ACCORDING TO THE URBAN INSTITUTE, NEGLECT IN MAINTAINING THE COUNTRY'S EXISTING INFRASTRUCTURE WILL PUSH MAINTENANCE INVESTMENT ALONE TO OVER $660 BILLION IN THE NEXT 15 YEARS. THIS IS AS MUCH AS STATE AND LOCAL GOVERNMENT HAS SPENT ON NEW INVESTMENT IN THE PAST 20 YEARS; IT IS EQUAL TO 20% OF THE ENTIRE U.S. GROSS NATIONAL PRODUCT IN 1980."

WE FEEL THAT A SIGNIFICANT PART OF THE FEDERAL EFFORT SHOULD FOCUS ON INFRASTRUCTURE REPAIR. LET US REVIEW THESE NEEDS ACCORDING TO THE BUSINESS WEEK ARTICLE ON THE SUBJECT:

> "STREETS AND HIGHWAYS: MORE THAN 8,000 MILES OF THE INTERSTATE HIGHWAY SYSTEM'S 42,500 MILES AND 13% OF ITS BRIDGES ARE NOW BEYOND THEIR DESIGNED SERVICE LIFE AND MUST BE REBUILT. AND JUST TO MAINTAIN CURRENT SERVICE LEVELS ON THE ROADS AND HIGHWAYS OUTSIDE URBAN AREAS, THAT ARE COUNTY AND STATE RESPONSIBILITIES THAT ARE NOT PART OF THE INTERSTATE SYSTEM WILL REQUIRE MORE FUNDS FOR REHABILITATION AND RECONSTRUCTION DURING THE 1980S--OVER $500 BILLION--THAN ALL LEVELS OF GOVERNMENT SPENT ON ALL PUBLIC WORKS INVESTMENTS DURING THE 1970S.
>
> " BRIDGES: IT WILL COST $41.1 BILLION TO REPLACE OR REHABILITATE THE MORE THAN 200,000 DEFICIENT BRIDGES—TWO OUT OF EVERY FIVE--IN THE NATION. THESE ARE ALMOST EXCLUSIVELY A COUNTY RESPONSIBILITY.

"SEWERS: FEDERAL AND LOCAL GOVERNMENT WILL HAVE TO INVEST MORE THAN $31 BILLION IN SEWER SYSTEMS AND WASTEWATER TREATMENT PLANTS OVER THE NEXT FIVE YEARS.

" WATER: THE 756 URBAN AREAS WITH POPULATIONS OVER 50,000 WILL HAVE TO SPEND UP TO $100 BILLION OVER THE NEXT TWO DECADES JUST TO MAINTAIN THEIR WATER SYSTEMS. EVEN MORE MONEY WILL BE REQUIRED TO DEVELOP MORE WATER SOURCES FOR FAST-GROWING AREAS IN THE SOUTHWEST AND WEST.

"JAILS: BY ONE ESTIMATE, 1,300 OF THE NATION'S 3,500 JAILS ARE NOW UNDER COURT ORDERS OR ARE LIKELY TO BE. ANOTHER ESTIMATE CLAIMS THAT 90% OF ALL U.S. JAILS DO NOT MEET THE MINIMUM STANDARDS BEING ESTABLISHED BY THE COURTS—AND THUS ARE LIKELY TARGETS FOR THE CLASS ACTIONS THAT PRISONERS CONTINUE TO FILE AGAINST LOCAL GOVERNMENTS ALREADY STRUGGLING WITH RISING COSTS AND SHRINKING TAX DOLLARS.

"BECAUSE NEARLY HALF OF ALL U.S. JAILS ARE MORE THAN 30 YEARS OLD, EVEN EXTENSIVE RENOVATION MAY NOT BRING THEM INTO COMPLIANCE WITH COURT ORDERS. AS A RESULT, MANY LOCAL GOVERNMENTS MUST BUILD NEW JAILS. JAIL CONSTRUCTION COSTS ARE NOW RUNNING AT $108 PER SQ. FT."

THE CURRENT CRISIS IS FAR MORE SEVERE THAN IN THE PAST. FOR A SERIES OF FORCES IS NOW AT WORK THAT CALLS INTO QUESTION THE ABILITY OF LOCAL GOVERNMENTS THROUGH-OUT THE NATION--NOT ONLY IN THE TRADITIONALLY DEPRESSED NORTHEAST AND MIDWEST BUT EVEN IN THE FAST-GROWING SUNBELT—TO PROVIDE THE INFRASTRUCTURE NEEDED FOR ECONOMIC GROWTH.

These forces are:

> "Massive Cuts in Federal Aid to State and Local Government. After growing almost fourfold in the 1970s, federal grants-in-aid will be drastically reduced, falling from $88 billion in 1980 to below $80 billion in 1983.
>
> "A Reduced State and Local Tax Base. With the cut in federal taxes--especially for business--some 30 states that tie their taxes to federal taxes will face declining revenues.
>
> " Record Breaking Interest Rates. The rates that states, counties and cities have had to pay for money have almost doubled since 1977. The average local government now has to pay 85% of what the U.S. Treasury has to pay for long-term money; only two years ago it was 70%.
>
> "A Reduction in the Attractiveness of State and Local Bonds. To spur private saving and investment, the tax load has been lightened particularly in the upper brackets, and has provided special tax-exempt investment vehicles such as the All Savers Certificates and has broadened the scope of Individual Retirement Accounts. This has reduced the attractiveness of tax-exempt municipals to the rich, who have been their traditional purchasers.
>
> " The effect of these four forces is to put local government finance in an unprecedented vise at a time of growing need."

IF STATE AND LOCAL GOVERNMENT CANNOT FIND A WAY OUT OF THIS BIND, THE EFFECTS WILL BE DEVASTATING. IT IS PERFECTLY TRUE THAT THE PRIVATE SECTOR HAS CARRIED THE RESPONSIBILITY FOR ECONOMIC GROWTH THROUGHOUT THE HISTORY OF THIS NATION. BUT AT VIRTUALLY EVERY STAGE OF THE NATION'S HISTORY, GROWTH WAS DEPENDENT ON A BALANCE BETWEEN PRIVATE AND PUBLIC INVESTMENT.

SIMPLY STATED WE SEE A FEDERAL JOB CREATION EFFORT AS THE FIRST FEDERAL STEP TO PROVIDE JOBS NEEDED FOR THE NECESSARY REPAIR OF OUR NATION'S BASIC INFRASTRUCTURE TO SPUR ECONOMIC GROWTH.

GENERAL REVENUE SHARING

MR. CHAIRMAN, AS A MEMBER OF THE BUDGET COMMITTEE, WE WOULD WELCOME YOUR SUPPORT FOR INCREASING FUNDS FOR GENERAL REVENUE SHARING IN FUNCTION 850. THIS WOULD PRESENT THE SENATE FINANCE COMMITTEE WITH A VARIETY OF OPTIONS TO CHOOSE FROM INCLUDING A PERMANENT COUNTERCYCLICAL FISCAL ASSISTANCE PROGRAM TARGETED TO CITIES AND COUNTIES WITH THE GREATEST NEED.

FUNDING FOR GENERAL REVENUE SHARING HAS NOT INCREASED SINCE ITS INCEPTION. AN INCREASE IN FUNDS WOULD RESULT IN BOTH DIRECT AND INDIRECT JOB CREATION AND OFFSET LOCAL TAX INCREASES.

PUBLIC SERVICE EMPLOYMENT

ALTHOUGH MUCH MALIGNED, PUBLIC SERVICE EMPLOYMENT IS THE MOST COST EFFECTIVE AND QUICKEST WAY TO PUT PEOPLE BACK TO WORK. COUNTIES WOULD WELCOME A PROGRAM THAT SETS ASIDE ENOUGH FUNDS FOR SUPPLIES AND MATERIALS. JOBS CREATED COULD BE SHORT-TERM AND MEET THE MUCH NEEDED "SOFT PUBLIC WORKS" DEMANDS OF OUR NATION. WITH CLOSE TO 11% UNEMPLOYMENT, ELIGIBILITY SHOULD BE PRIMARILY DETERMINED BY A DURATION OF UNEMPLOYMENT TEST.

IN CONSIDERING ANY TYPE OF JOB CREATION, I REFER BACK TO THE EXAMPLES IN MY OWN COUNTY OF KANE. WE OBTAINED MANY POSITIVE RESULTS THROUGH THE PUBLIC SERVICE EMPLOY-

MENT PROGRAM UNDER THE CETA ACT. THE PROGRAM PUT PEOPLE TO WORK IN MEANINGFUL JOBS. THROUGH WORK WITH SOCIAL SERVICE AGENCIES THAT HAD WELL ESTABLISHED RECORDS AND COMMUNITY ACCEPTANCE, SUCH AS THE SUPPORT OF UNITED WAY, SERVICES WERE EXPANDED AND DOORS WERE KEPT OPEN. COMMUNITY IMPROVEMENT PROJECTS WHICH WOULD NOT HAVE OTHERWISE BEEN ACCOMPLISHED WERE COMPLETED. IN THE CLOSING MONTHS OF THIS PROGRAM, WE WERE ABLE TO PLACE 75.4% OF THOSE WHO TERMINATED.

I WOULD LIKE TO GIVE YOU SOME EXAMPLES OF THE PROJECTS AND SERVICES WHICH OCCURED THROUGH THESE PROGRAMS:

- WORKING WITH THE LOCAL PARK DISTRICT, A TREE NURSERY WAS ESTABLISHED, LANDSCAPING PROVIDED, A ZOO RENOVATED, AND A HANDICAP PROGRAM AND WINTER SWIM DEVELOPED AND IMPLEMENTED.
- PUBLIC SERVICE EMPLOYMENT PARTICIPANTS WERE USED AT AN EASTER SEAL CENTER TO DEVELOP AND PROVIDE A TRANSPORTATION PROGRAM FOR THE HANDICAPPED, AS WELL AS DESIGN AND IMPLEMENT A PROGRAM AND EVALUATION SYSTEM.
- AN AGENCY SERVING DRUG AND ALCOHOL ABUSERS WAS ABLE TO EXPAND THEIR OUT PATIENT AND RESIDENTIAL SERVICES THROUGH THE ADDITION OF COUNSELLING AND SUPPORT STAFF.
- A SCHOOL DISTRICT DEVELOPED A LEARNING LAB AND OPENED A CHILD CARE CENTER FOR THE CHILDREN OF ADULT LEARNERS. WITHOUT THIS PROGRAM, THE DISTRICT PROJECTED THAT THEIR BIG ENROLLMENTS WOULD HAVE BEEN SUBSTANTIALLY LESSENED.

IN OTHER AREAS:

- INDIVIDUALS EMPLOYED IN A VARIETY OF TASK AT THE PARAMOUNT ART CENTRE ALLOWED A HISTORIC SITE TO BE RENOVATED AND REOPENED. THIS THEATRE IS NOW ONE OF THE BIGGEST

ATTRACTIONS IN OUR LARGEST CITY IN THE COUNTY.

- ON THE BANKS OF THE FOX RIVER, THE RED OAK NATURE CENTER WAS DEVELOPED THROUGH PUBLIC SERVICE EMPLOYMENT PARTICIPANTS ASSISTANCE WITH RENOVATION, DEVELOPMENT OF A WILD LIFE RESERVE, AND THE DESIGN OF EDUCATIONAL PROGRAMS, AS WELL AS A LIBRARY. THE CETA PARTICIPANT AT THIS CENTER IS NOW THE DIRECTOR.
- BLACKBERRY FARM, A TURN OF THE CENTURY COMMUNITY PARK, WAS RENOVATED BY PSE PARTICIPANTS.
- A CENTER FOR BATTERED WOMEN WAS OPENED AND STAFFED THROUGH THE ASSISTANCE OF PSE PARTICIPANTS.
- NEWLY DEVELOPED PROGRAMS FOR DISPLACED HOMEMAKERS AND OLDER WORKERS WERE PARTIALLY STAFFED BY PARTICIPANTS.
- SERVICES TO THE ELDERLY WERE PROVIDED BY A COMMUNITY AGENCY PROVIDING THE ON SITE ASSISTANCE THROUGH HOMEMAKER/HOME HEALTH AIDS.
- OTHER PARTICIPANTS WERE USED TO EXPAND AGENCY OUT REACH SERVICES, AND TO CONDUCT COMMUNITY NEEDS ASSESSMENTS AND SURVEYS.

THROUGH THE YOUTH COMMUNITY CONSERVATION IMPROVEMENT PROJECT, MAINTENANCE AND GROUNDS WORK SERVICES WERE PROVIDED THROUGH THE COMMUNITY HOUSING AUTHORITY IN THE REFURBISHING OF LOW INCOME HOUSING THROUGHOUT ONE OF OUR CITIES.

LOOKING AT THE IMMEDIATE FUTURE, COUNTIES, MY OWN INCLUDED, FACE PROJECTS THAT ARE BOTH CAPITAL AND LABOR INTENSIVE. KANE COUNTY NEEDS TO EXPAND ITS ONE HUNDRED AND FOUR-CELL JAIL. WE ARE CONSIDERING THE ADDITION OF A NEW WING TO THE JAIL AT A COST CLOSE TO ONE MILLION DOLLARS. THE JAIL PROBLEM FACES EVERY COUNTY IN THIS COUNTRY. IT IS NOT MAKE WORK AND IS A COST WHICH WE MUST INCUR.

ALONG THE SAME LINES THE JUDICARY SYSTEM IS GROWING. THREE NEW JUDGES HAVE RECENTLY BEEN APPOINTED TO OUR CIRCUIT. WE FACE A NEED TO EXPAND OUR COURT FACILITIES. WE ARE IN THE PROCESS OF BUYING AN UNUSED SCHOOL BUILDING. IT WILL COST $250,000 WITH ANOTHER $300,000 NEEDED TO REMODEL IT FOR THE COURTS PURPOSES.

BOTH OF THESE ARE NEEDS WHICH HAVE BEEN IMPOSED ON US BY OTHERS, AND WHICH WE ARE MANDATED TO PROVIDE.

THESE, AND MANY SIMILAR PROJECTS, WOULD ENABLE COUNTIES TO PROVIDE MUCH NEEDED SERVICES AND FACILITIES WHILE ACCOMPLISHING THE GOAL OF PUTTING THE NATION BACK TO WORK, NOT "MAKE WORK," BUT MEANINGFUL AND SATISFYING WORK. THESE PROJECTS REQUIRE DOLLARS WHICH COUNTIES DON'T HAVE BUT MUST SPEND TO MEET FEDERAL AND STATE MANDATES.

DISLOCATED WORKERS

WE WOULD ALSO WELCOME AN INCREASE IN FUNDS BEYOND THE $25 MILLION RECENTLY PROVIDED FOR TITLE III OF THE JOB TRAINING PARTNERSHIP ACT (JTPA).

THROUGH THESE SUGGESTIONS NACo ADVOCATES IS BASIC PREMISE RELATING TO JOB CREATION IN THAT WE SUPPORT PAYING PEOPLE TO WORK INSTEAD OF NOT TO WORK.

THE UNEMPLOYED PERSON WHO GETS A JOB FROM ONE OF THESE PROGRAMS DOESN'T CARE IF IT DOESN'T COME AT THE EXACT TIME IN THE CYCLE TO SUIT THE NEEDS OF AN ECONOMIST'S THEORY. IT IS A JOB THAT HELPS FEED A FAMILY THAT WOULD OTHERWISE BE HURTING.

WE ADVOCATE FEDERAL JOB CREATION AT TIMES OF EXTREMELY HIGH UNEMPLOYMENT, YES, WE WOULD PREFER JOBS BEING CREATED IN THE PRIVATE SECTOR. BUT, THE NATION CANNOT AFFORD TO WAIT UNTIL THAT HAPPENS.

MR. CHAIRMAN, I WOULD BE HAPPY TO ANSWER ANY QUESTIONS THAT YOU MAY HAVE.

Senator **Quayle**. I certainly appreciate both of your testimonies and we both try to get back to the State as often as possible; but it does us good to have many of the individuals that are on the firing line, so to speak, on a daily basis.

I gather from both your testimonies, particularly yours, mayor, that you are trying to stress that there is a very—almost a desperate feeling out there. I believe I can quote you right that there is a certain feeling that things are going to get worse before they get better; and that what you are saying to me and others, is that we have to care about the human misery that Senator Kennedy referred to and that it seems to me, if I can glean from your testimony, that there is at least a perception of a lack of—I do not want to use the word "sensitivity"—lack of caring about the human tragedies that go along with the high rate of unemployment.

Is that a fair presentation? Perhaps each of you might amplify a bit on the personal contacts that you have had from individuals. You talked about a project that would put 1,200 people back to work, which I think it is a good idea. What is the human, personal side? What is a reasonable expectation of what the people would like to see this Government do? I am sure the answer is to put everybody back to work. We are finding out that it is not that easy. But I think we need a psychological boost. I wonder if you might underscore the importance or lack of importance of a partnership effort, like the private-public partnership which was embodied in the Job Training Partnership Act, in developing a job creation proposal, particularly from the Federal level.

Mr. **Voinovich**. I can only use our situation locally. We were very fortunate that we found it possible to put in a $3 million program. We used a million from our community block grant and, as you know, that money is hard to come by. But we demonstrated to the community that we were so concerned about the unemployment we had that we were taking $1 million of that CDBG and putting it into a public works program. We selected our people by lottery. I will never forget, I said, you do not have this job because you are wired to me or some councilman. You have it because your name was pulled out of a barrel.

One of these days we will be going to Congress and asking you for this kind of program; and I told them, I want you to go out there and prove these are good jobs and you are not laying on the rake and the traditional kinds of things.

They did a terrific job. I got compliments from people in the community. They went out and worked very hard. There was a feeling in the community that we could not take care of everybody, but those people gave a damn about the problems of the community, and I think that is what this Congress has to do. Everyone knows you cannot do it all but there has got to be some manifestation that you know what is happening to people in this Nation. I think that would go a long way in restoring some hope on the part of many of our citizens because when people lose hope, they are lost. I think we should be honest with you.

You know, I do not think we should tell them that it is going to be a long road and we are trying to do the best we can with the circumstances that exist.

I would also like to comment—you are probably going to ask the question: How do you pay for this?

Senator **Quayle**. That was at the top of the list.

Mr. **Voinovich**. Forget the tax cut. I will give the National League of Cities' position and it is very strong. Forget the tax cut. Cut the——

Senator **Quayle**. The July 1?

Mr. **Voinovich**. Forget it. Limit defense spending increases to 7 percent and limit, limit, hear me, limit the increases in the entitlement programs. You spread it around among all people.

Now, I know in the entitlement programs that it is probably difficult politically.

Senator **Quayle**. You are talking about social security, primarily?

Mr. **Voinovich**. That is right. I am saying, we say to everybody, everybody will take a little bit. We will try to spread it as much as we can to try to come to grips with this problem. I think if everyone knew everybody was doing their fair share, they would buy the program, and so does the National League of Cities.

Senator **Quayle**. Mr. Miller, do you have any comments?

Mr. **Miller**. I guess the main comment I would have is I address the need for work for the dislocated worker. That would deal with some long-term needs. As I would see it, the two programs that are facing us immediately in our country involve capital- and labor-intensive situations, courthouse and jail work. We would put into motion plans that would put those into a position to implement them within 6 to 8 weeks and we could respond to any programs that you come out with. There are needy people in our area. There is not any question about that. They want jobs. We are at about 12.6 percent unemployment at this stage right now. I would agree with the mayor that there is not any question that these people are hurting. They are looking for jobs and almost anything that could be done to find them would be helpful.

Senator **Quayle**. Some of the public works program are contracted out to private contractors and others are done directly by municipal governments. I wonder if you might comment on the advantages or disadvantages of going either way. Do you have specific recommendations on which would be the most efficient, both from the aspect of getting the job completed in a qualitative way and timely basis and also from a cost to the taxpayers?

Mr. **Voinovich**. We have a unique situation in Cleveland. Cleveland is a labor town. If we go into a public works program that requires public works, we have to pay the prevailing wage. So it does not make any difference. If we put them on our payroll, it would cost the same. If we contract it out, we would probably look at the projects and in some, we would bring people in to work for the city and pay them scale and in other instances where we feel private contractors could get it done faster, maybe a little more efficiently, we would do that.

Senator **Quayle**. Mr. Miller, do you have any comment?

Mr. **Miller**. If we had the resources, we could probably get the work done quicker. However, in my particular situation, we would have to go to private contractors through the bidding process. The statute requires that to get the job done.

Senator QUAYLE. Senator Kennedy?

Senator KENNEDY. I want to thank both of you for excellent testimony. As you are probably aware, Mr. Mayor, last year we did have a one-time program of the CDBG amendments in the Senate for $2 billion. That was included in our program, the Democratic alternatives, which would have provided a mechanism.

CDBG is an existing mechanism understood by the mayors who have a number of the programs on track. It is interesting to hear your comments about the success of your own program and it is reassuring that we are on the right track in that limited area.

I have just one or two observations.

The administration seems to believe that things are getting better again. But I think we must have a recognition in the country and in the Congress that there has to be an alternative program for the economy to improve. I am interested from both your vantage points if you feel that the economy has turned around? Unless we get a sense and a feeling that both in the Congress and within this administration that there is a real need out there, we are not going to get any meaningful response to some of the concerns that you have outlined.

Mr. Mayor?

Mr. VOINOVICH. I think I have already commented. I do not think it is going to get better. I think most people from every point of view of the community feel that things are going to get worse before they get better. There are signs of sunshine. I keep looking for them. I keep talking to people and getting something back that is positive, that there is light at the end of the tunnel. But overall, the answer is no, we do not see it. It will take a while.

Senator KENNEDY. I am grateful to you for your detailed comments on the value of your program. We heard the President talking in his last press conference about leaf-raking programs. It is that kind of quick, slick catchword that undermines the ability of thoughtful men and women in the local sector, mayors, and Congress itself, in trying to deal with the problems of unemployment.

I think all of us have to realize that there is some waste and there are some ineffective programs. It is true in the social area. It is true in the job area; it is true in the defense area. But I think the record you have given to us has been an exemplary one and I appreciate your input.

Mr. Chairman, there is always the question of the willingness of people to work or not work.

I saw an article in the newspapers this morning, and I would like to get your opinion if this is typical of the people you are coming into contact with. This was about a little town in Oklahoma. About 1,800 people stood in line to fill out applications for work at a tire manufacturing company. Frank Krug, manager of the State Employment Security Office said about 500 people spent the night outside the office Friday, waiting to fill out applications for Goodyear Tire & Rubber plant in Lawton. Krug said the plant was not hiring, had not done so for a while but decided to take applications in case the work force was expanded in the future.

People appear—at least in this community—to want to work, to pull their share of the load, to pay their taxes; to be good citizens.

Are those the kinds of people you are talking about, too?

Mr. VOINOVICH. They want a job. The reason why—one of the reasons why we went to the lottery system, in addition to the fact that we thought it was a fair system, was the fact that the last time we put notices out for laborers jobs there were a thousand people there and they broke the front door of the city hall.

We specifically said, we will give you a long period of time to fill out an application and you do not have to stand in line. But people want to work.

I was a county commissioner for a couple of years. People say, these folks in welfare do not want to work. They want to work. They want a job. That is the bottom line. They want a job. I think we ought to do our very best to provide them with those jobs.

Senator KENNEDY. Thank you very much.

Senator QUAYLE. Thank you, Senator Kennedy.

Mayor, I want to add one final comment.

Your recommendation about trying to target some of the Defense Department procurement is an idea that I certainly share. I can tell you that on the Armed Services Committee, on which Senator Kennedy is a new member, I will be working on that effort to try to target some of those DOD moneys that should be passed to areas of high unemployment.

Mr. VOINOVICH. Senator, if you did a little investigation over in that Defense Department—it is like every other procurement office of any business; they have their friends. Gould Corp. manufactures torpedoes in the Cleveland area. There is a 5707 section of the code that says you have to give it to small business.

We participated in a program called make it in Cleveland.

We, honest to goodness, went out to find manufacturers in the region that could provide parts for the torpedo company. When that program was complete, that portion of Gould's costs were 20 percent lower than what they anticipated because they had opened it up and they went out and got competition and anything you can do to open that thing up, just the labor surplus thing, and try to let people know the stuff is available, has brought on more competition and lower prices for the Defense Department. That is the other side of it.

Some people say, no, it will not work, and it is the lowest and best bid, but you and I know that just ain't the way it is in some instances.

Senator QUAYLE. Thank you both very much.

Senator KENNEDY. Mr. Chairman, could I present to the committee Mr. Lindsay. He lives in Massachusetts. He has been one of the most successful, enterprising entrepreneurs in our State. He has been extremely active in a variety of different community affairs and civic affairs. He has been involved in politics and supported Republicans from time to time but has also been a citizen of enormous help to all of us in public life that have been interested in the opportunities of small business and the general business climate. I have personally benefited from his counsel and advice.

I have had an opportunity to review his testimony, which moves in a quite different approach from what we have been hearing today, and I think it will be very valuable and helpful to this committee.

I just want those who will have the opportunity to read it to know that it is the result of a great deal of thought and attention and a great deal of experience and a very significant amount of success.

So we are fortunate to have him here.

I want to thank you for being here. I will not be able to remain during the testimony but we thank you for your presence.

Senator QUAYLE. Thank you.

Perhaps we are on the threshold of hearing testimony that will be a big breakthrough in terms of job creation.

With that introduction, Mr. Lindsay, please proceed.

STATEMENT OF FRANKLIN A. LINDSAY, VICE CHAIRMAN OF THE BOARD, CED, ACCOMPANIED BY NAT SEMPLE, VICE PRESIDENT, DIRECTOR OF GOVERNMENTAL AFFAIRS; AND KENNETH McLENNEN, VICE PRESIDENT, DIRECTOR, INDUSTRIAL STUDIES, COMMITTEE FOR ECONOMIC DEVELOPMENT, A PANEL

Mr. LINDSAY. I would like to say, before Senator Kennedy leaves, that we just have the highest regard for what both Senator Quayle and Senator Kennedy did working together to produce the new Job Training Partnership Act. I hope we made some modest contribution to this.

You are to be congratulated, both of you, in driving this through. I know it was not easy.

I will briefly summarize my written comments.

In our view, whether responding to short-term or to long-term concerns, we need to formulate policies that do not inhibit change in our industrial structure. This includes avoiding direct or indirect Government subsidies, mandated advance notification of plant closings, domestic content legislation, and similar measures.

Second, we must restore fair competition, in real terms, to our markets. This includes addressing the imbalance in our exchange rates, particularly in relation to the yen.

Third, we need to provide for transition support, both in terms of industry and employment, which is temporary and fosters needed change. This includes extending unemployment insurance and placing much greater emphasis on retraining.

I might add that the structure your legislation puts in place can now play a very important role in this function.

In the interest of time, and because of their importance to the debate, I believe it would be useful to focus on the two most visible and troubled industries as examples: steel and automobiles.

In my view, in addition to slack demand, the major causes for the economic slump these two industries are now experiencing has been the intrusion of foreign competition brought on by the adverse impact of extremely unfavorable exchange rates and the failure of productivity growth to stay in reasonable balance with increased labor costs.

I am concerned about the exchange rate issue.

C. Fred Bergsten, for example, judges that a major cause of the declining ability of our capital intensive industries to compete in recent years has been the fact that the dollar has risen by nearly 50 percent from its 1978 low to its recent November high in relation to the yen. Some others estimate that this one factor alone accounts for a substantial portion of the current unemployment in steel, heavy and construction industries, and autos. Bergsten further argues that the recent yen-dollar exchange rate represents a substantial overvaluation of the dollar, and that a quick decline from 280 to 220 in the yen-to-dollar ratio is needed to remedy such overvaluation.

Happily, an upward move in the yen of roughly half that dimension has taken place since November, but such movement needs to be sustained and extended to measure up to Bergsten's prescription. And it should be pointed out that even with this improvement much of the damage has already been done, for once a company loses market share, it is extremely difficult to win it back.

The second major cause, in my view, for the troubles these industries find themselves in has been the overpricing of labor relative to both skill and productivity. Partly, this has resulted from a severe undercapitalization in these industries over the last decade, which has led to certain production and management inefficiencies. But it has largely resulted from the fact that labor is overpriced. I might add that CED has a major study almost completed on improving productivity.

Even if the dollar imbalance or the wage issues are adequately dealt with, the future vitality, if not survival, of these industries will require severe readjustment, both in terms of the means of production and in labor utilization. It will most assuredly result in significant, if not unprecedented permanent dislocation, which by most accounts, will only accelerate in the future. While the aggregate number of workers who will eventually be permanently dislocated may be relatively small, unless we devise a positive and efficient solution, the politics of the problem will prevent us from enacting those other policies needed to restore these two important industries to economic health.

Unfortunately, the public works jobs creation proposals introduced thus far do not appear to provide much of an answer either to this concern or to a permanent reduction in unemployment.

Dr. Rivlin has already outlined some of the difficulties. I believe there are alternatives to employment that are more effective and provide, ultimately, a more permanent solution.

A number of proposals have surfaced recently to encourage some kind of retraining and relocation systems for the permanently dislocated and most involve, to one degree or another, the U.S. Jobs Service. These include proposals to establish a jointly funded individual training account which a permanently dislocated employee could draw upon for training and relocation assistance. Another arrangement involves a payroll tax, used to channel funds into a statewide training account, from which an unemployed worker could obtain a training voucher.

All of these proposals have attractive features, but I caution that in considering these concepts, it is very important to review thoroughly the entire operation and purpose of our unemployment insurance system. There are several changes which would serve to make UI a more effective adjustment device. With me is Dr. Kenneth McLennan, CED's vice president and director of industrial studies, who will provide some greater detail in this regard. Whatever approach is taken, I believe that it should be based on the following principles:

First, any successful retraining program, whether linked to UI or not, needs to be market driven. It should be designed for existing jobs and should allow for maximum choice by the individual. This requires, in the most fundamental sense, the availability of good labor market information.

Second, such a system needs to involve the minimum of bureaucratic redtape, should be as universally available as possible, and should be part of a person's responsibility while receiving unemployment insurance.

Third, such a system should not involve a new mandated payroll tax. Employers are now, in my view, taxed more than enough and would resist imposition of a new requirement unless offset by some other tax reduction. If joint programs will be considered, I believe they should have incentives included that reward, not penalize, employers who wish to participate.

I believe the new private industry councils should play a major role in any new approach. It is crucial that business be directly involved, not only to provide more immediate labor market information, but to insure that the training is appropriate. Although the new job training statute does provide for considerable input by the PIC in the design of the local employment service plan—in my view an excellent provision—there may need to be additional language to assure the PIC is directly involved in any dislocated worker program operating as part of the UI system.

I might add that we believe getting the solutions down to the local level, where people both in the public sector and private industry know what the real needs are, is one of the most important things. That was what you provided for in your legislation last year.

I believe the time has come to institute a flexible, universal system of retraining and dislocation assistance. The need to do so will only increase in time, for while there is some disagreement over the rate of future dislocation, there is general agreement that we are not prepared to deal with the problem.

In summary, do not do anything that will retard the needed changes in our industrial structure. Do those things that will restore true competition and real relative market values. Make transition support temporary and build in incentives. Tie programs to local needs and to local institutions. Combine unemployment assistance with training under local leadership.

Mr. Chairman, thank you for the opportunity to appear here and for your leadership in this area.

[The prepared statement of Mr. Lindsay follows:]

NOT FOR RELEASE
JANUARY 11, 1983

TESTIMONY
OF
FRANKLIN A. LINDSAY
VICE CHAIRMAN
COMMITTEE FOR ECONOMIC DEVELOPMENT
AND
CHAIRMAN, EXECUTIVE COMMITTEE
ITEK CORPORATION
ON
FEDERAL JOB CREATION POLICY
BEFORE
SUBCOMMITTEE ON EMPLOYMENT AND PRODUCTIVITY
COMMITTEE ON LABOR AND HUMAN RESOURCES
UNITED STATES SENATE

JANUARY 12, 1983

Mr. Chairman, I am pleased to be here once again to present the views of my colleagues at the Committee for Economic Development, as well as my own, on how best to deal with the serious unemployment problem this country faces.

Before beginning, I want to say emphatically that I believe the recently enacted Job Training Partnership Act, which resulted in no small measure from your personal efforts, can have a significant impact. I am convinced that the new partnership between local governments and business as embodied in the redesigned Private Industry Councils (PICs) will make a lasting contribution to the economic vitality of our nation's communities, not only with respect to the training of the hard-to-employ, but in the greater involvement of business in upgrading elementary and secondary education in cooperative efforts aimed at expanded local economic development, and in a variety of other ways. I was pleased to have played a small part on behalf of CED in the evolution of this statute, and it is my intent, as well as that of my colleagues at CED, to see that its implementation is accomplished smoothly and results in a significant new involvement of the business community. Again, congratulations are in order for the considerable skill you exhibited in shepherding this difficult legislation through the many pitfalls of the legislative process.

I believe that JTPA can further serve the cause both of addressing the effects of our current unemployment problems and reducing their effects. But before describing how the statute

COULD BE UTILIZED OR EXPANDED TO DO THIS IN ADDITION TO ITS ALREADY MANDATED ACTIVITIES, I WOULD LIKE TO SUMMARIZE BRIEFLY MY CONCERNS OVER THE DIRECTION -- OR THE LACK OF IT -- THAT OUR POLICY MAKERS HAVE SHOWN RECENTLY IN ADDRESSING THE UNEMPLOYMENT SITUATION.

AT NO TIME SINCE THE DEPRESSION DO I SENSE LESS CONFIDENCE IN BOTH THE PUBLIC AND PRIVATE ARENA ABOUT THE ABILITY OF OUR TRADITIONAL MACRO-ECONOMIC TOOLS TO PULL US OUT OF A RECESSION. PART OF THE REASON IS THAT WE HAVE NOT YET TRULY ADMITTED HOW MUCH OUR ECONOMY IS PART OF A WORLD ECONOMY -- WHERE OFTEN UNPREDICTABLE EXTERNAL FACTORS WILL PLAY AN EVER INCREASING ROLE IN SHAPING OUR ECONOMIC DESTINIES. NOR HAVE WE ADMITTED THAT TO COPE WITH THE UNPREDICTABLE NATURE OF THE WORLD ECONOMY WE WILL HAVE TO INSTITUTE POLICIES, BOTH PUBLIC AND PRIVATE, THAT WILL ALLOW US TO RESPOND RAPIDLY. YET EVEN IF WE RECOGNIZED THESE CHANGES, I SENSE OUR POLITICAL INSTITUTIONS ARE NOT EQUIPPED TO RESPOND, OFTEN TAKING THE SHORT-TERM EXPEDIENT AND POLITICALLY POPULAR SOLUTION OVER THE MORE PAINFUL, LESS POPULAR, BUT NECESSARY LONGER-TERM ANTIDOTE. THIS IS ESPECIALLY TRUE IN DEALING WITH EMPLOYMENT POLICY, WHICH DEPENDS IN LARGE MEASURE ON OUR ABILITY TO DEAL WITH THE BROADER ISSUES.

IN MY VIEW, WHETHER RESPONDING TO SHORT-TERM OR TO LONG-RUN CONCERNS, WE NEED TO FORMULATE POLICIES THAT:

- DO NOT INHIBIT CHANGE IN OUR INDUSTRIAL STRUCTURE. THIS INCLUDES AVOIDING DIRECT OR INDIRECT GOVERNMENT SUBSIDIES; MANDATED ADVANCE NOTIFICATION OF PLANT CLOSING; DOMESTIC CONTENT LEGISLATION; AND SIMILAR MEASURES.

- RESTORE FAIR COMPETITION, IN REAL TERMS, TO OUR MARKETS. THIS INCLUDES ADDRESSING THE IMBALANCE IN OUR EXCHANGE RATE,PARTICULARLY IN RELATION TO THE YEN.
- PROVIDE FOR TRANSITION SUPPORT, BOTH IN TERMS OF INDUSTRY AND EMPLOYMENT, WHICH IS TEMPORARY AND FOSTERS NEEDED CHANGE. THIS INCLUDES EXTENDING UNEMPLOYMENT INSURANCE WITH A MUCH GREATER EMPHASIS ON RETRAINING.

IN THE INTEREST OF TIME, AND BECAUSE OF THEIR IMPORTANCE TO THE DEBATE, I BELIEVE IT WOULD BE USEFUL TO FOCUS ON THE TWO MOST VISIBLE AND TROUBLED INDUSTRIES AS EXAMPLES: STEEL AND AUTO. IN MY VIEW, IN ADDITION TO SLACK DEMAND, THE MAJOR CAUSES FOR THE ECONOMIC SLUMP THESE TWO INDUSTRIES ARE NOW EXPERIENCING HAS BEEN THE INTRUSION OF FOREIGN COMPETITION BROUGHT ON BY THE ADVERSE IMPACT OF EXTREMELY UNFAVORABLE EXCHANGE RATES AND THE FAILURE OF PRODUCTIVITY GROWTH TO STAY IN REASONABLE BALANCE WITH INCREASED LABOR COSTS.

I AM PARTICULARLY CONCERNED WITHTHE EXCHANGE RATE ISSUE. C. FRED BERGSTEN, FOR EXAMPLE, JUDGES THAT A MAJOR CAUSE OF THE DECLINING ABILITY OF OUR CAPITAL INTENSIVE INDUSTRIES TO COMPETE IN RECENT YEARS HAS BEEN THE FACT THAT THE DOLLAR HAS RISEN BY NEARLY 50 PERCENT FROM ITS 1978 LOW TO ITS RECENT NOVEMBER HIGH IN RELATION TO THE YEN. SOME OTHERS ESTIMATE THAT THIS ONE FACTOR ALONE ACCOUNTS FOR A SUBSTANTIAL PORTION OF THE CURRENT UNEMPLOYMENT IN STEEL, HEAVY AND CONSTRUCTION EQUIPMENT, AND AUTOS. BERGSTEN FURTHER ARGUES THAT

THE RECENT YEN-DOLLAR EXCHANGE RATE REPRESENTS A SUBSTANTIAL OVERVALUATION OF THE DOLLAR, AND THAT A QUICK DECLINE FROM 180 TO 220 IN THE YEN-TO-DOLLAR RATIO (DEPENDING UPON WHICH EXPERT JUDGEMENT IS RELIED UPON) IS NEEDED TO REMEDY SUCH OVERVALUATION. HAPPILY, AN UPWARD MOVE IN THE YEN OF ROUGHLY HALF THAT DIMENSION HAS TAKEN PLACE SINCE NOVEMBER, BUT SUCH MOVEMENT NEEDS TO BE SUSTAINED AND EXTENDED TO MEASURE UP TO BERGSTEN'S PRESCRIPTION. AND IT WOULD BE POINTED OUT THAT EVEN WITH THIS IMPROVEMENT MUCH OF THE DAMAGE HAS ALREADY BEEN DONE, FOR ONCE A COMPANY LOSES MARKET SHARE, IT IS EXTREMELY DIFFICULT TO WIN IT BACK.

THE SECOND MAJOR CAUSE, IN MY VIEW, FOR THE TROUBLES THESE INDUSTRIES FIND THEMSELVES IN HAS BEEN THE OVERPRICING OF LABOR RELATIVE TO BOTH SKILL AND PRODUCTIVITY. PARTLY, THIS HAS RESULTED FROM A SEVERE UNDERCAPITALIZATION IN THESE INDUSTRIES OVER THE LAST DECADE, WHICH HAS LED TO CERTAIN PRODUCTION AND MANAGEMENT INEFFICIENCIES. BUT IT HAS LARGELY RESULTED FROM THE FACT THAT LABOR IS OVERPRICED.

IN STEEL FOR EXAMPLE, TO CITE ROBERT SAMUELSON, BETWEEN 1950 AND 1981 WAGES ROSE FROM 27 PERCENT OF THE NATIONAL AVERAGE HOURLY EARNINGS TO 74 PERCENT, AT A TIME WHEN WAGES IN ALL NON- FARM INDUSTRIES WERE FAR OUTSTRIPPING PRODUCTIVITY GAINS. THE FAILURE OF OUR NATION TO MAINTAIN PRODUCTIVITY GROWTH IN REASONABLE BALANCE WITH INCREASED LABOR COSTS HAS LEFT US IN A POSITION WHERE MUCH OF OUR INDUSTRY HAS SIMPLY OUTPRICED ITSELF IN TERMS OF THE WORLD ECONOMY.

WHETHER OR NOT ONE AGREES WITH ME ON THESE ASSESSMENTS IS NOT THE POINT. THE POINT IS THAT THESE KINDS OF FACTORS HAVE A MUCH GREATER IMPACT ON EMPLOYMENT THAN MOST REALIZE AND SHOULD BE A FIRST PRIORITY CONCERN FOR GETTING AT THE ROOT OF THE PROBLEM.

ASSUMING THAT WE DO ADDRESS THE DOLLAR IMBALANCE, OR THE WAGE ISSUE, THE FUTURE VITALITY, IF NOT SURVIVAL, OF THESE INDUSTRIES WILL REQUIRE SEVERE READJUSTMENT, BOTH IN TERMS OF THE MEANS OF PRODUCTION AND IN LABOR UTILIZATION. IT WILL MOST ASSUREDLY RESULT IN SIGNIFICANT, IF NOT UNPRECEDENTED PERMANENT DISLOCATION, WHICH BY MOST ACCOUNTS, WILL ONLY ACCELERATE IN THE FUTURE. WHILE THE AGGREGATE NUMBER OF WORKERS WHO WILL EVENTUALLY BE PERMANENTLY DISLOCATED MAY BE RELATIVELY SMALL, UNLESS WE DEVISE A POSITIVE AND EFFICIENT SOLUTION, THE POLITICS OF THE PROBLEM WILL PREVENT US FROM ENACTING THOSE OTHER POLICIES NEEDED TO RESTORE THESE TWO IMPORTANT INDUSTRIES TO ECONOMIC HEALTH.

UNFORTUNATELY, THE PUBLIC WORKS JOBS CREATION PROPOSALS INTRODUCED THUS FAR DO NOT APPEAR TO PROVIDE MUCH OF AN ANSWER EITHER TO THIS CONCERN OR TO A PERMANENT REDUCTION IN UNEMPLOYMENT.

SIMILAR EFFORTS IN THE PAST HAVE NOT PROVEN TO BE TERRIBLY EFFECTIVE IN GENERATING NEW JOBS. THE $6 BILLION PUBLIC WORKS PROGRAM PASSED BY THE CONGRESS IN RESPONSE TO THE 1974-75 RECESSION DID NOT REACH FULL LEVELS UNTIL 1978 -- THREE YEARS AFTER THE RECESSION HAD REACHED BOTTOM. AND THE ILL-FATED PUBLIC

PUBLIC SERVICE JOBS PROGRAM, WHICH UNDER CETA REACHED A LEVEL OF NEARLY 3/4 OF A MILLION INDIVIDUALS AT ITS PEAK IN 1977, ONLY SERVED TO REDUCE ACTUAL UNEMPLOYMENT A FRACTION OF A PERCENT.

SUBSEQUENT ANALYSIS -- BY OMB, THE CONGRESSIONAL BUDGET OFFICE AND OTHERS -- REVEALED A VERY HIGH LEVEL OF SUBSTITUTION IN BOTH TYPES OF PROGRAMS. OMB, IN 1979, FOUND THAT ONLY 2 PERCENT OF THE FUNDING AND ONLY 12 PERCENT OF THE JOBS PROVIDED IN THE 1974 LOCAL PUBLIC WORKS PROGRAM WENT TO INDIVIDUALS WHO HAD PREVIOUSLY BEEN UNEMPLOYED. AND THE NATIONAL COMMISSION ON EMPLOYMENT POLICY AND OTHERS INDICATED A SUBSTITUTION RATE FOR PSE AS HIGH AS 90 PERCENT, ALTHOUGH MORE RECENT EVIDENCE SUGGESTS IT WAS PROBABLY CLOSER TO 50 PERCENT.

CURRENT CONGRESSIONAL PROPOSALS CONTINUE TO INCLUDE, AS DID MOST OF THEIR PRECECESSORS, DAVIS-BACON OR OTHER PREVAILING WAGE LANGUAGE. NOT ONLY DO SUCH PROVISIONS SEVERELY LIMIT ACCESS TO ANY BUT QUALIFIED CONSTRUCTION WORKERS -- WHO ADMITTEDLY ARE EXPERIENCING A HIGH RATE OF UNEMPLOYMENT -- BUT THEY PERPETUATE THE ARTIFICIALLY HIGH AND OFTEN UNCOMPETITIVE WAGE STANDARDS THAT ARE AT THE ROOT OF MUCH OF THE PROBLEM IN OUR HEAVY MANUFACTURING INDUSTRY.

I DO NOT MEAN TO SOUND ENTIRELY NEGATIVE ABOUT DIRECT FEDERAL JOB CREATION EFFORTS. IN FACT, RECENT STUDIES OF THE ILL-FATED CETA PUBLIC SERVICE PROGRAMS, AS REDESIGNED AND TARGETTED IN THE 1978 AMENDMENTS, WITH FAIRLY POSITIVE RESULTS, WHICH SUBSTANTIALLY REDUCED RATES OF SUBSTITUTION THAT PLAGUED THE EARLIER EFFORTS AND MUCH

GREATER TARGETTING ON THE LONG-TERM UNEMPLOYED. A SIMILAR EFFORT, UNDER A DIFFERENT NAME, AND EVEN MORE CAREFULLY DRAWN, MIGHT MAKE A POSITIVE CONTRIBUTION, THOUGH I WOULD NOT ADVOCATE PURSUING THIS APPROACH UNTIL OUR OTHER AVENUES HAVE BEEN EXHAUSTED.

I BELIEVE THERE ARE ALTERNATIVES TO PUBLIC WORKS AND PSE THAT WOULD BE MORE EFFECTIVE AND PROVIDE, ULTIMATELY, A MORE PERMANENT SOLUTION.

IN OUR 1978 REPORT: JOBS FOR THE HARD-TO-EMPLOY, WE ENUMERATED A NUMBER OF MEASURES WHICH WE AT CED FELT WOULD MINIMIZE THE EFFECTS OF UNEMPLOYMENT DURING RECESSIONS. THESE INCLUDED:

- FEDERAL INCENTIVES TO ENCOURAGE CORPORATIONS TO PROVIDE SKILL UPGRADING AND OTHER TRAINING PROGRAMS AS ALTERNATIVES TO LAY OFF,
- INVESTIGATING THE USE OF "WORK SHARING" AS AN ALTERNATIVE TO CYCLICAL LAYOFFS WHERE MANAGEMENT AND LABOR CAN AGREE,
- CHANGES IN FEDERAL AND STATE UNEMPLOYMENT INSURANCE LAWS TO ALLOW FOR RETRAINING AFTER A SPECIFIED PERIOD OF TIME, AND

- REDESIGNING THE U.S. EMPLOYMENT SERVICE AND INSTITUTING OTHER CHANGES IN SOME OF OUR CURRENT INSTITUTIONS TO IMPROVE THE LINK BETWEEN LABOR SKILL AND DEMAND.

IT IS THE LAST TWO OF THE ABOVE ENUMERATED PROPOSALS -- RETRAINING THE UNEMPLOYED AND IMPROVING THE LINK BETWEEN LABOR SKILLS AND DEMAND -- THAT I FEEL HOLD THE GREATEST PROMISE.

NUMEROUS PROPOSALS HAVE SURFACED RECENTLY TO ENCOURAGE SOME KIND OF RETRAINING AND RELOCATION SYSTEMS FOR THE PERMANENTLY DISLOCATED.AND MOST INVOLVE, TO ONE DEGREE OR ANOTHER, THE U.S. JOBS SERVICE. THESE INCLUDE PROPOSALS TO ESTABLISH A JOINTLY FUNDED INDIVIDUAL TRAINING ACCOUNT WHICH A PERMANENTLY DISLOCATED EMPLOYEE COULD DRAW UPON FOR TRAINING AND RELOCATION ASSISTANCE. ANOTHER ARRANGEMENT INVOLVES A PAYROLL TAX, USED TO CHANNEL FUNDS INTO A STATEWIDE TRAINING ACCOUNT, FROM WHICH AN UNEMPLOYED WORKER COULD OBTAIN A TRAINING VOUCHER.

ALL OF THESE PROPOSALS HAVE ATTRACTIVE FEATURES, BUT I CAUTION THAT IN CONSIDERING THESE CONCEPTS, IT IS VERY IMPORTANT TO REVIEW THOROUGHLY THE ENTIRE OPERATION AND PURPOSE OF OUR UNEMPLOYMENT INSURANCE SYSTEM. THERE ARE SEVERAL CHANGES WHICH WOULD SERVE TO MAKE UI A MORE EFFECTIVE ADJUSTMENT DEVICE. WITH ME IS DR. KENNETH MCLENNAN, CED'S VICE PRESIDENT AND DIRECTOR OF INDUSTRIAL STUDIES, WHO WILL PROVIDE SOME GREATER DETAIL IN THIS REGARD. WHATEVER APPROACH IS TAKEN I BELIEVE THAT IT WOULD BE BASED ON THE FOLLOWING PRINCIPLES:

- FIRST, ANY SUCCESSFUL RETRAINING PROGRAM, WHETHER LINKED TO UI OR NOT, NEEDS TO BE MARKET DRIVEN. IT SHOULD BE DESIGNED FOR EXISTING JOBS AND SHOULD ALLOW FOR MAXIMUM CHOICE BY THE INDIVIDUAL SO THAT HIS OR HER SKILLS

CAN BE APPROPRIATELY DEVELOPED. THIS REQUIRES, IN THE MOST FUNDAMENTAL SENSE, THE AVAILABILITY OF GOOD LABOR MARKET INFORMATION.

- SECOND, SUCH A SYSTEM NEEDS TO INVOLVE THE MINIMUM OF BUREAUCRATIC RED TAPE, SHOULD BE AS UNIVERSALLY AVAILABLE AS POSSIBLE, AND SHOULD BE PART OF A PERSON'S RESPONSIBILITY WHILE RECEIVING UNEMPLOYMENT INSURANCE.
- THIRD, SUCH A SYSTEM SHOULD NOT INVOLVE A NEW MANDATED PAYROLL TAX. EMPLOYERS ARE NOW, IN MY VIEW, TAXED MORE THAN ENOUGH AND WOULD RESIST IMPOSITION OF A NEW REQUIREMENT UNLESS OFFSET BY SOME OTHER TAX REDUCTION. IF JOINT PROGRAMS WILL BE CONSIDERED, I BELIEVE THEY SHOULD HAVE INCENTIVES INCLUDED THAT REWARD, NOT PENALIZE, EMPLOYERS WHO WISH TO PARTICIPATE.

I BELIEVE THE NEW PRIVATE INDUSTRY COUNCILS SHOULD PLAY A MAJOR ROLE IN ANY NEW APPROACH. IT IS CRUCIAL THAT BUSINESS BE DIRECTLY INVOLVED, NOT ONLY TO PROVIDE MORE IMMEDIATE LABOR MARKET INFORMATION, BUT TO INSURE THAT THE TRAINING IS APPROPRIATE. ALTHOUGH THE NEW STATUTE DOES PROVIDE FOR CONSIDERABLE INPUT BY THE PIC IN THE DESIGN OF THE LOCAL EMPLOYMENT SERVICE PLAN -- IN MY VIEW AN EXCELLENT PROVISION -- THERE MAY NEED TO BE ADDITIONAL LANGUAGE TO ASSURE THE PIC IS DIRECTLY INVOLVED IN ANY DISLOCATED WORKER PROGRAM OPERATING AS PART OF THE UI SYSTEM.

I WOULD ALSO ENCOURAGE THE SECRETARY OF LABOR, UNDER HIS DISCRETIONARY AUTHORITY, TO EXPERIMENT WITH ALTERNATIVE APPROACHES TO THE NEEDS OF THE DISLOCATED. AND I WOULD URGE THIS COMMITTEE TO ATTEMPT TO DISCOVER AND ASSESS WHAT HAS BEEN LEARNED FROM PRIOR EXPERIMENTS. I SUSPECT THAT THERE ARE NUMEROUS SUCH STUDIES BURIED IN THE BOWELS OF THE DEPARTMENT THAT HAVE BEEN GATHERING DUST BUT WHICH MIGHT SHED SOME LIGHT ON THE PROBLEM.

I BELIEVE THE TIME HAS COME TO INSTITUTE A FLEXIBLE, UNIVERSAL SYSTEM OF RETRAINING AND DISLOCATION ASSISTANCE. THE NEED TO DO SO WILL ONLY INCREASE IN TIME, FOR WHILE THERE IS SOME DISAGREEMENT OVER THE RATE OF FUTURE DISLOCATION, THERE IS GENERAL AGREEMENT THAT WE ARE NOT PREPARED TO DEAL WITH THE PROBLEM.

MR. CHAIRMAN, I APPRECIATE THE OPPORTUNITY TO TESTIFY TODAY, AND I AGAIN WANT TO CONGRATULATE YOU ON YOUR CONTINUED LEADERSHIP IN THIS AREA OF CONCERN.

Senator QUAYLE. Thank you very much, Mr. Lindsay.

Dr. McLennan.

Mr. McLENNAN. Thank you very much.

I would just like to add a few comments, especially about the unemployment insurance, which I have outlined in my testimony, which I would submit for the record.

In dealing with this problem is that we should realize that over the past couple of years we have made much greater progress in reducing inflation than any of us predicted. We have begun to restructure our economy. Unfortunately, this initial restructuring has been accompanied by high costs, and these high costs have been forced on millions of families with unemployed members.

The sense I got from what other people were saying here is unless the employed and the beneficiaries of many of the social transfer programs are going to be a part of the cost of this restructuring, then all of the burden will continue to remain on the unemployed.

I have made several longer-term proposals that I think will improve the efficiency of the unemployment system and ask that those be considered in the future.

First, I think we ought to reexamine the current experience rating system for determining the employer UI tax. In other words, we ought to impose a higher penalty on those employers who fail to utilize their labor force efficiently and reward those employers who are more efficient in the use of their labor force.

Second, within the longer-term proposals, I think we ought to reexamine the waiting period for benefit eligibility. Over the years, more and more States have moved to shorter and shorter waiting periods before workers are eligible for UI benefits. In some States the benefits are available immediately. I think we need to think about how we are going to help the unemployed. Should we allocate resources immediately to those laid off or should we use these resources to help the long-term unemployed?

Third, I think we ought to examine whether or not we can change somewhat the concept of unemployment insurance so that it is no longer a system only for income maintenance and job search assistance. We ought to consider whether or not we ought to build within this system an individual worker account, which would help structurally unemployed workers relocate in the future. These are complicated changes in a complicated Federal-State system. But one proposal which I think could be initiated quite quickly and relatively easily is amending the Individual Retirement Act and Keogh portions of the Tax Code to permit the withdrawal penalties to be waived when a worker is permanently displaced. Use as an example a worker at, say, age 40, who has built up his individual retirement account over the years. He is penalized very heavily if he withdraws those funds before the age of 59½. If he becomes displaced, I think that is an emergency situation and we should examine the Tax Code to see if that provision could be waived.

Also, in order to encourage workers to participate in the IRA program even further, I would amend the retirement legislation, the Employment Retirement Income Security Act, ERISA, to mandate that all employers provide a payroll deduction plan for employees who wish to contribute voluntarily to an IRA. This would encourage employer involvement.

The final proposal I make on what to do with the problem right now is to transform the extended unemployment benefit program into a reemployment voucher program. The voucher system I recommend to your committee, Mr. Chairman, should be studied by the Congress and by the administration. The program might work as follows:

When a worker goes on to extended unemployment benefits, he would have the option of receiving a voucher equal to 50 or 75 percent of the value of the 13 weeks currently under the Federal extended program. The voucher could be offered to an employer who provides the worker with a job which is an incremental increase in the employer's work force. The employer would receive the value of the voucher in either monthly or quarterly benefits as long as he remains employed with that employer. I would provide that this employment voucher program end automatically 1 year after it is put into effect. The reason for this is the problem pointed out by my colleague, Mr. Lindsay, and by Alice Rivlin, that after a while, substitution of one group of workers for another takes place quite rapidly. The research evidence I have looked at says that at a year and a quarter or a year and a half, the substitution is close to 100 percent, and you are not really creating any more new jobs. So you have to understand that the longer the program runs, the more substitution there will be. The cost of a new program is always a problem at a time of large deficits. In 1982 we spent $1.8 billion on the extended program. According to what Dr. Rivlin said this morning, there are currently 700,000 employees currently on extended unemployment. Even if we assume that this was to increase in 1983, to twice that amount, then with the 75 percent value of the 13 extended weeks, you would not incur any additional cost in 1983 until there were 1.66 million workers on the voucher program. If you were to go to 50 percent, of course, the figure would be more: 2.5 million workers. That is a very rough thumbnail sketch of what the costs would be. But I think it is one suggestion that Congress and the administration should study.

One other point is to support what my colleague, Mr. Lindsay, says about flexibility in compensation schedules. We just cannot have the unit costs of labor rising at the rate they have been doing and not expect that this will increase unemployment. I agree strongly with what Mr. Lindsay says, that the exchange rate problem is important but it is not the most important problem.

To give an illustration: In 1980, when we had the largest number of Japanese car imports, Japanese manufacturing unit labor costs actually declined by 0.3 percent. Our unit labor costs in manufacturing and our own currency and their own currency increased at over 11 percent. That is part of the problem. I think we have to address this issue and get our unit labor cost down by increasing productivity and having compensation flexibility in our wage negotiations.

Finally, the long-run solution depends on economic policy, and on policies which reduce the budget deficit by cutting back some of the growth in entitlement programs and perhaps also increasing taxes over the current level.

In this respect, Mr. Chairman, I would say that if we are going to raise taxes, I would personally believe that we ought not to change the current indexing proposal nor should we change the basic reduction in tax rates, but we should move in the direction of trying to reduce the growth in special tax preference provisions.

Indeed, Mr. Chairman, I think this is very much in line with the direction of your own tax proposal.

Thank you very much.

[The prepared statement of Mr. McLennan follows:]

For Release on Delivery
January 12, 1983

STATEMENT

of

Kenneth McLennan
Vice President and Director of Industrial Studies
Committee for Economic Development

on

POLICIES TO STIMULATE THE HIRING OF THE LONG-TERM UNEMPLOYED AND PERMANENTLY DISPLACED WORKERS*

before

SUBCOMMITTEE ON EMPLOYMENT AND PRODUCTIVITY

U.S. SENATE

January 12, 1983

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*Some of the recommendations in this testimony are currently being considered for inclusion in CED's forthcoming policy statements on Industrial Strategy and Trade and Productivity Policy: Key to the Nation's Economic Future. The views expressed in this testimony are, however, those of the author and do not necessarily represent the views of individual CED trustees or their organizations.

Mr. Chairman,

Over the past two years we have made much greater progress in reducing the rate of inflation than anyone predicted. Many industries have started to improve efficiency of operations as the first necessary step toward much higher productivity growth. This initial restructuring of our economy has been painful and has imposed high costs on millions of families. As a nation, if we are to achieve the economic growth required to raise the real income of workers and in the long run improve the general welfare, more sacrifices will be necessary by all groups in society. Unless all of the employed and the beneficiaries of social transfer programs bear some of the sacrifice, the burden of improving the competitiveness of our economy will continue to fall on the unemployed.

As far as labor market policy is concerned we must do much more than simply repackage old so-called "job creation" employment programs. In terms of resources for assisting the unemployed, our federal-state Unemployment Insurance system dwarfs all of our employment programs. I believe we should take this opportunity to reform this system so that it does more than provide income maintenance to enable the unemployed to engage in job search.

Over the past fifty years our federal-state UI system has been modified in ways never intended by the economists who developed the "Wisconsin Idea" for social policies. The original purpose of the program was to assist those who bear the cost of economic change by providing them temporary income maintenance. In most states, however, the structure of the UI tax no longer provides employers with sufficient incentive to plan the utilization of their work force. Consequently, since they are not penalized for underutilizing their workforce some employers use the UI system to supplement their workers' annual wages and pay part of the cost of phasing their workers out of the labor force. The cost of this inefficiency is borne by other employers in the system. Similarly, some workers use the UI system to supplement their income during voluntary unemployment, with the cost borne by other workers.

I. Long-run Changes to Improve the Efficiency of the UI System

Mr. Chairman, there is a significant body of research which suggests how we can modify the system so that it provides employers with a greater incentive to ensure that their workers experience fewer spells of unemployment and make sure that the taxes paid into the system are used not only to assist in job search, but also to help the long-term unemployed return to productive work.

The following are some changes which if implemented are likely to improve employment policies in the longer run by reducing unnecessary use of the system.

- Strengthen the relationship between the UI tax and the firms' unemployment rate (i.e., the experience rating concept in the UI tax). The current minimum and maximum caps on the UI tax tend to lead to the clustering of firms' tax rates around these upper and lower limits. Some cross-subsidization of some firms and workers by other firms and workers developed early after the UI system was established. This was probably desirable when seasonal unemployment was more common. However, we have long known that wage rates in labor market tend to compensate for instability in employment. The current degree of cross-subsidization is contrary to the major purpose of experience rating, which is to provide employers with an incentive to plan the utilization of their work force and avoid unnecessary layoffs. The current UI tax structure actually penalizes firms with successful employment policies. In 1982 the federal government prescribed that all states must have a maximum UI tax at or above a minimum rate. In order to preserve the incentive for employers to plan, the federal government should consider requiring the states to adopt UI tax rate schedules which distribute firms' employment experience more evenly between a wider minimum and maximum tax rate differential. Given the current deficit position of many state funds, it may also be necessary to raise the states' maximum rates above the level prescribed in the 1982 tax act.

- Reverse the trend toward no waiting period for benefit eligibility which developed during periods of high economic growth and surpluses in most state UI funds. As in the case of health insurance systems the concept of "no deductible" makes no sense. Perhaps the federal government should require that all states have a two-week waiting period for benefit eligibility. This proposal may raise a number of difficult issues for some employers who have negotiated Supplemental Unemployment Benefit provisions on the basis of very short UI waiting periods. To protect the income of the long-term unemployed the traditional 26 weeks of UI benefits could run from the beginning of the third week through the 28th week of unemployment.

- Modify UI system to assist permanently displaced experienced workers. This could be achieved by including an Individual Account as a second tier within the current system.

    -- Tier I would be a modified version of the present system with experience rating and waiting period modifications. Similar eligibility requirements would cover all workers as a group. Tier II would consist of an individual account for each worker which would be financed by a portion (perhaps 10 percent) of the employer tax.

    -- Each employee account should be fully funded and the interest earned on the funds credited to the individual account would be transferred and administered by the other state if the worker relocates the account. The eligibility conditions under which a worker can draw upon the account may include: (1) permanent displacement, perhaps with the employer certifying that the worker will not be rehired because the job has been permanently eliminated and (2) continuous labor force experience of five years prior to permanent layoff.

If the two-tier reform of the current UI system proves infeasible I strongly urge that the following alternative be enacted.

- Amend the current Individual Retirement Account (IRA) and Keogh provisions of the tax code to permit the withdrawal penalties to be waived when a worker is permanently displaced, i.e., the current job no longer exists.

  -- The Economic Recovery Tax Act (ERTA) 1981 has provided all workers with a strong incentive to save for their retirement. However, if these funds are withdrawn prior to age ~~65~~ 59½ a fairly severe tax penalty is assessed.

  -- It seems only sensible to permit workers to use their IRA funds without penalty in an emergency situation, such as permanent displacement. If it proves difficult to establish an operational definition of permanent displacement an additional age restriction could be applied. The penalty waiver might only be available to workers over 40 years, since occupational change becomes more difficult for permanently displaced older workers.

  -- In addition, the Employee Retirement Security Act (ERISA) should be amended to require all employers to provide payroll deductions for any employee who voluntarily wishes to save for his or her own individual IRA account.

II. Stimulating the Hiring of the Long-term Unemployed During the Next Year

Most economic forecasts predict that the growth of real GNP will be quite modest during the next year and that the unemployment rate will remain at about 10 percent. Until the economy experiences a strong recovery, I suggest that the concept of UI benefits primarily for temporary income maintenance to permit job search, should be reassessed. Perhaps the UI system can be redesigned to encourage more rapid adjustment on the part of workers. One proposal would be to permit some portion of UI benefits to be used as a Reemployment Voucher.

Mr. Chairman, I strongly recommend that your Subcommittee study the following proposal and make specific recommendations to the appropriate Congressional committees.

- Workers who become eligible for extended UI benefits under the federal extended unemployment benefit program be permitted the option of receiving a Reemployment Voucher. The voucher scheme might work as follows:

  -- The value of the voucher might be 50 - 75 percent of the value of the 13 weeks under the federal extended program or any remaining weeks for which workers would be eligible if he remained unemployed during the entire extended period (i.e., currently 13 weeks).

  -- This voucher could be offered to an employer who provides worker with a job which is an incremental increase in the employer's work force. The employer would receive the value of the reemployment voucher in 12 monthly payments from the state UI system (or one-twelfth of the value for every month the worker remains with employer).

  -- The incremental wage subsidy through the Reemployment Voucher should end after about a year, otherwise employment displacement would occur. Also, employers should not be subsidized for hiring during the later stages of an economic recovery.

  -- The value of the average worker who becomes eligible for extended benefits would be about $750 at 50 percent and $1,125 at 75 percent. For many employers this would be a significant incentive to hire a worker who has experienced long-term unemployment.

  -- The cost of the program even at 50 percent would be quite high. The maximum would be 50 percent (or 75 percent) of the value of 13 weeks extended benefits times the number of workers who become eligible for extended benefits. However, the net cost would be less since some portion of these workers would have continued on extended benefits for the full 13 weeks in the absence of the voucher.[2]

The need to experiment with the uses of the UI system appears well-founded. In the future, UI benefits should continue to assist most workers to search for jobs and perform an important countercyclical income maintenance function during recessions. However, during 1983 the cost of unemployed labor resources to the families of the long-term unemployed and to society will be high. The issue is whether we can design a more efficient UI system which not only preserves its job search function but also makes a greater contribution to labor force adjustments in a changing economy.

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[2] In 1982 the cost of the federal extended program was $1.8 billion. If the cost is the same for 1983 the Reemployment Voucher would only result in a net increase in expenditure once 2.5 million workers became eligible for extended benefits under 50 percent of the value of 13 weeks of extended benefits (1.66 million workers for 75 percent).

III. Compensation Flexibility to Reduce the Layoff of Workers

The need for compensation flexibility is especially important in some of our basic industries which have become less competitive than producers in one or more industrial countries. For example, since the early seventies the level of productivity in Japanese basic steel has exceeded the U.S. level, and it appears that the German steel industry has also now surpassed our level of productivity.

The U.S. automobile industry has also lost its competitive position and experienced substantial import penetration -- especially from Japanese automobiles. The surge in Japanese imports occurred in 1975-1976 when the value of Japanese auto sales in the United States increased about 60 percent. This was the result of a significant shift in consumer demand for smaller, more fuel efficient cars -- a demand which U.S. auto companies were ill-equipped to meet. Over the following four years (1977-1980) sales of Japanese cars in the United States grew steadily at an average annual rate of about 9.5 percent per annum. Japanese cars now have a share of about 21 percent of the U.S. domestic auto market and account for about 80 percent of all imports.

Since 1977 the small car (subcompact, regular compact, sports) share of the U.S. market has grown from about 48 percent in 1977 to about 64 percent at present. While imports have always been strong in this market, their share has remained about 40 percent since 1977. Since the import share of the U.S. market has been increasing (about 27 percent in 1981) foreign cars are beginning to increase their share of the large car market.[3] This has occurred even though in 1981 the Japanese voluntarily agreed to limit for two years the number of units exported to a level below the 1980 number exported to the United States.

During 1981 the sales of all auto manufacturers suffered and by November 1982 almost 252,000 auto workers (over 30 percent of direct manufacturing workers) were on indefinite layoff. Clearly, if our basic manufacturing industries were more competitive it would make a significant contribution to solving our overall unemployment problem. To do this our average level of productivity must match, or preferably exceed, the average level of Japanese basic industries. Unless we do this the current compensation levels in our basic industries cannot be maintained without chronic unemployment among workers in these industries.

Lack of capital investment, poor quality control, poor strategic planning by management and, at least during 1979 - September 1982, some undervaluation of the yen are part of the problem. Rapidly rising hourly compensation costs are also part of the problem. In 1970, for U.S. steel workers the average wage premium (the excess over the average hourly wage of manufacturing workers) was about 22 percent. In December 1982 the premium was 47 percent. For auto workers the premium rose from 26 percent to 47 percent, even after a slowdown in wage rate increases in 1981. These are underestimates of the actual growth in the wage rate premium since fringe benefits are excluded. The hourly total compensation premium is now probably closer to 70 percent in both industries.

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[3] It is also now evident that U.S. manufacturers are having serious difficulties in producing subcompacts at a cost which permits them to price competitively for this segment of the market.

In some of our basic industries labor leaders and management have recognized this problem and in the recent auto agreements our free collective bargaining system has taken some innovative steps to reduce unit labor costs.

Many CED trustees believe that on their own, labor and management have taken actions which will eventually make our auto industry competitive in world markets. In my opinion, as more markets have worldwide boundaries the "orbit of coercive comparison" for collective bargaining expands to include low unit cost producers in foreign countries. Pattern-setting bargaining, within and among industries, based on the assumption that U.S. markets are primarily domestic markets, is detrimental to the goal of improved competitiveness and increases the potential for worker dislocation through plant closure.

For multi-unit bargaining, involving both single and multi-company arrangements, management and labor should try to permit flexibility in the compensation package among units in the master agreement. If compensation levels were more closely related to local labor market conditions the need to adjust to structural change would be more gradual. Workers who were potentially vulnerable would have more options. They would consider relocating in an occupation in which their productivity would be higher or accept lower compensation with an incentive to contribute to the productivity improvement of their own plant.

I am not suggesting that we return to the disintegrated bargaining structure which characterized many of these industries in the 1950s. That would clearly not be in the public interest. I am simply suggesting that, even beyond the current crisis in these industries, it is in the interests of management, national union leaders and workers to permit greater wage rate variation according to local labor market conditions in negotiated master agreements. Wage rate flexibility will not prevent obsolete plants from closing, but will make some plants more competitive and avoid imposing all of the adjustment cost on those who are unemployed.

IV. The Importance of General Economic Policies

The potential beneficial effect of modifications to UI or flexibility of wage rates are insignificant compared to fiscal policies which are successful in reducing interest rates. To achieve this, it is essential for the government to demonstrate that it can reduce the projected federal deficit. In my opinion, all groups in society must share the cost of reducing government expenditure. The proposed increases in defense expenditures must be cut back, Minor cutting of social programs will not be sufficient; the projected increases in entitlement programs must also be cut. This includes Social Security retirement income as well as medicare. In responding to the current Social Security financing crisis it is essential to avoid raising the cost of hiring by increasing the Social Security payroll tax.

Finally, Mr. Chairman, while there are considerable risks to raising taxes during a recession it may be necessary, not only to reduce the deficit, but to demonstrate that all groups in society bear part of the burden of revitalizing the economy, to increase federal revenues by selectively raising taxes. In this respect, CED has supported the inclusion of Social[4] Security benefits in taxable income since the elderly poor will pay no tax. If it is necessary to raise taxes to reduce the deficit, CED supports moving toward a more neutral system of taxation.[5] In this respect, I believe any increase in taxes should avoid raising the basic individual or corporate tax rates, or repealing tax reductions now mandated in law. In addition, current legislation to introduce indexing of taxes should not be repealed. We should not return to the experience of the past when tax revenues were increased through "bracket creep." If tax revenues have to rise it is preferable that it occur through reductions in special tax preferences for personal and business taxes. In essence, Mr. Chairman, the criterion for increasing tax revenues should be to gradually broaden the tax base and thereby keep marginal tax rates low. The goal of tax simplification, as in your SELF Tax Act 1982 (S. 2557), should be a guiding principle if raising taxes should be necessary in order to reduce the projected budget deficit.

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[4] See Reforming Retirement Policies (New York; CED, 1981). CED's recommendation would have excluded employee contributions to Social Security and employer pensions and include the benefits in taxable income. For Social Security reform a similar effect could be achieved by including one-half the benefits in taxable income. Under this recommendation I would remove the current earnings limitation on workers who continue to work after being eligible for Social Security.

[5] See Productivity Policy: Key to the Nation's Economic Future (New York: CED, forthcoming 1983), Chapter 5.

Senator QUAYLE. Thank you very much, Dr. McLennan.

The record will show that Mr. Nat Semple is accompanying Mr. Lindsay.

Do you have a statement to make?

Mr. SEMPLE. No.

Senator QUAYLE. Short and to the point.

Thank you very much.

I have a question for both Mr. Lindsay and Dr. McLennan, since you both touched upon it, concerning the price of labor relative to skill and productivity.

Is there anything that the Congress can do in that area or is this basically going to be left to the collective bargaining process?

I would be curious to know if there is anything beyond public pronouncements and statements by people such as yourself in this area that we can do?

Mr. LINDSAY. I think in a negative sense, anything that the Congress can do to remove inhibitions in flexibility in wage rates and competitiveness should be done.

As a general observation, I would not favor Congress actively intervening. Wage determinations should be left to the bargaining place. But I think that inhibitions now in legislation or contemplated should be removed. Painful as it may be, I think that these excessive wage rates will come down relative to other wages.

One of the problems is that so many wage agreements are 3-year contracts and so it takes a while to work them out of the system.

Senator QUAYLE. I suppose one of the areas, and Dr. McLennan might want to expand or amplify on this, would be in line with relieving the inhibitions or promoting more flexibility in the Davis-Bacon Act. I suppose that might be one area. Beyond that, I do not know. There are specific recommendations. Maybe Dr. McLennan, you might want to help us out.

Mr. MCLENNAN. Davis-Bacon is a very difficult issue and one CED has not taken a position on recently, But clearly, most economists are concerned about the impact of Davis-Bacon. We think that it is much better for the Government not to interfere in the collective bargaining system because experience tells us that when the Government intervenes in this the parties involved are less capable of achieving flexibility.

Now, we have trustees who are in the auto industry and there have been some quite innovative approaches in the recent auto negotiations. Our trustees believe quite firmly that through modifications in wage settlements, they are on the way to encouraging employees to participate much more and to improve productivity. Unfortunately, that has not occurred in a number of other industries now experiencing serious problems. The unemployment rate is over 30 percent in auto and in a few other industries.

Since 1970, the premium hourly wage rate for workers in auto and steel has nearly doubled compared to the average manufacturing wage. It has jumped from about 26 percent to about 47 percent. When you consider total compensation including other fringe benefits, the differential is probably even greater.

I think the parties themselves have begun to realize that you cannot have that kind of trend and not suffer in competitiveness which will result in the closing of the least efficient plants.

I should add, though, that flexibility in wage compensation will not save obsolete plans. Nor will it correct for poor managerial planning strategy and bad investment decisions that management has made. I know of no CED trustee who is not willing to say that managements have made mistakes in the past and are partly to blame for the problem we are in.

Mr. SEMPLE. Mr. Chairman, I would like to clarify one point on Davis-Bacon.

It is true CED has not taken a position recently. But as early as 1970, CED did come out against continuing these and other types of provisions in Federal statutes and we repeated that in 1972.

One of the interesting points is that in the 1978 revision of the public service jobs program, the wage levels of the program were substantially lowered and, curiously enough, many of the problems that were ascribed to PSE seemed to disappear after those specific limitations were included in 1978.

Although we think that public service jobs or similar proposals are last-resort types of activity, a carefully constructed program, assuming one could eventually find room in the budget for such an approach, akin to some of the things that went on in 1978, might be a useful thing to look at. I am just offering that as an idea. It is true that the PSE program, after the 1978 amendments, showed much less substitution than its predecessor.

Senator QUAYLE. Let me just ask one final question I'll ask Mr. Lindsay first and then Dr. McLennan and Mr. Semple for comment:

Do you believe that as an interim step to an economic recovery that the Congress should work toward coming up with some job creation legislation? If so, should it be in the area of expanding some labor intensive Federal programs, public service employment, or other public works jobs?

Dr. McLennan talked about hooking into the unemployment insurance system, which is a new idea, and he discussed a voucher system. But I am looking at what you might think as member of the business community. Do you feel that the Congress ought to seriously examine and proceed in this area of job creation which is basically some sort of public employment.

Mr. LINDSAY. I think our feeling is only as a last resort, if we are not smart enough to find more constructive, more immediately responsive ways of maintaining and dealing with unemployment.

One of the real concerns that we have is that most public employment, and particularly the more useful public employment, takes a long time to get underway and in many ways it is procyclical. I think we would rather see, if it is needed, an extension of unemployment insurance, possibly with adjusted rates. That can be done quickly and will have its effect on the people who are in trouble today. Couple this with training programs that are not essentially mandated and managed from Washington but rather handled by the new structure at the State level and the local level—the new private industry councils. That's where they know what the needs are. That's how we can have the greatest chance that the training will take place for jobs that either now exist or are expected to return when the economy recovers. Obviously, no one can be in favor of the level of poverty that really is painful. We all feel that unemployment insurance needs to be modified to the degree necessary. And we need training in which the employee himself makes the maximum contribution, and in which the local business and Government leaders are able to determine what we are going to need in terms of future jobs.

Senator **Quayle**. Thank you.

Anybody else have a comment?

Mr. **McLennan**. I think that I would just complement what Mr. Lindsay has said. If you were to look at the reemployment voucher system, 75 percent of the 13 weeks, the amount of that would be about $1,200 of a subsidy. Such a program would probably not put such a strain on the budget deficit as public service employment. I think what we are saying is, why don't you study that alternative before you mount some new public employment program since we know we have run into problems with them in the past. I think the notion of an employer getting a $1,200 subsidy for hiring an incremental increase in his work force is better than targeted job tax programs because small employers would rather have the money in the form of a voucher than deal with it through the tax system. They would get it every month or every quarter and it would be more attractive to hire a long-term unemployed worker.

Senator **Quayle**. Thank you, gentlemen, and I particularly like your idea on the IRA and Keough.

We appreciate your observations. We appreciate your observations. You have lived up to the introduction that the Senator from Massachusetts gave you early on.

Thank you very much.

In the interest of time, I am going to limit the testimony to 10 minutes.

Mr. **Fay**. I think we only have six pages.

Senator **Quayle**. Go ahead and proceed at will.

STATEMENT OF ROBERT B. FAY, PRESIDENT AND TREASURER, JOS. B. FAY CO., PITTSBURGH, PA., ACCOMPANIED BY RICHARD CREIGHTON, EXECUTIVE DIRECTOR FOR CONGRESSIONAL RELATIONS, ASSOCIATED GENERAL CONTRACTORS

Mr. **Fay**. My name is Robert Fay and I am president of the Joseph B. Fay Co. of Pittsburgh, Pa. I am also chairman of the Manpower and Training Committee of the Associated General Contractors of America. I am here today representing that association, and I am accompanied by Richard Creighton, executive director for congressional relations for AGC.

AGC of America and its 112 chapters nationwide is comprised of approximately 30,000 firms including 8,400 of the Nation's leading general contracting companies that perform more than $100 billion of construction annually; our member firms normally employ some 3,400,000-plus workers, a significant portion of our national labor pool.

I use the term "normally," because more than 1 million construction workers—almost 25 percent of the Nation's largest industry's work force—are currently unemployed.

Construction accounts, even during the current economic recession, for some $230 billion of our gross national product and directly employs 3.8 million people, and indirectly an additional 16 million people in construction supply industries such as cement, glass and steel, insurance, architecture, and engineering. Unlike the recent past, however, when construction accounted for 10 percent of the gross national product, today's level represents less than 8 percent of the GNP and a sharp drop in the number of people at work on construction sites.

Mr. Chairman, we are most pleased to testify before you today on the topic of Federal employment programs. Our industry, more so than any other single industry, knows only too well the unemployment problems that burden this Nation—.2 million construction workers are presently unemployed.

We believe that a great opportunity exists to address our Nation's unemployment ills without the necessity of creating a new employment program, while at the same time addressing another national ill—the deteriorating condition of our Nation's infrastructure. That opportunity exists in using established Federal, State, and local public works programs to (one) reverse the deterioration of our Nation's infrastructure, and (two) provide productive employment in the process.

The vehicles, methods and procedures of public construction programs entailing competitively bid contract construction to the private sector are already in place—they only need adequate funding to be employment effective. Let me repeat: the needs are evident. The work forces are available. All that is lacking is funding to meet both needs.

With the passage of last year's Surface Transportation Assistance Act, Congress recognized one very important need—the restoration of our Nation's deteriorating highways and bridges. Through that recognition, Congress will also provide the estimated 63,000 jobs for every billion dollars spent in the highway program. Increased expenditures in the highway program will result in an estimated increase of productive employment of 13,100 on-site, 13,200 off-site and 36,700 induced employees.

The decaying nature of our highways and bridges, however, is only a part of the story. What we as a nation must be concerned about is the basic fiber of our framework, the Nation's infrastructure.

Since March of 1982, AGC has been alerting the public to the steady deteriorating infrastructure in the United States and to the need to protect our huge investment as an industrial Nation in our infrastructure All the elements of the high standard of living to which we are accustomed are in jeopardy due to the poor state of our Nation's public buildings, highways, bridges, dams, and other public facilities. AGC believes an infrastructure repair program need to be undertaken because it is urgently needed. An infrastructure program will not only revitalize the Nation and its economy, but has the ability to directly reemploy and employ many of the Nation's jobless in a timely, efficient, and constructive manner.

By merely reviewing existing studies, most of which were conducted by executive branch agencies, the presently existing needs are staggering.

[The following was received for the record:]

	Billions
Water supply and distribution systems (urban only)	$110.0
Dams	119.4
Sewage treatment	119.0
Public buildings	9.4
Highways	315.2
Bridges	47.6
Airports	13.5
Mass transit	36.6
Railroads	94.0
Locks/waterways	41.7
Ports	3.5

Mr. FAY. These presently identified needs total between $900 billion to $1 trillion. These figures do not even include the full range of private hospital and health facility needs; it does not include the growing rural water delivery system needs and it does not include the cost associated with the rehabilitation, expansion, and construction of police stations, fire houses, libraries, prisons, jails, and many other public buildings not yet surveyed and spread through every level of government.

Our economic system depends on our ability to expand. Individual communities need to expand basic elements of the infrastructure to attract new industry.

Some critics of infrastructure programs maintain that infrastructure types of construction frequently have long startup times. The inference is that those individuals who are currently unemployed may not benefit from the program. AGC believes this is an inaccurate appraisal of the situation. For example, State highway officials have already determined that within 90 to 120 days from enactment of the recent highway user fee increase, 4,300 Federal aid highway projects valued at $5.6 billion could be underway.

A misconception also exists regarding levels of training required for craft workers on infrastructure projects. Concern has been expressed that the skills required for those crafts involved cannot be obtained fast enough by unemployed and new workers who do not already possess them. The two major crafts involved in infrastructure work are of course operating engineers and laborers. Laborer positions in particular can provide entry level opportunities for many individuals.

Also within the other trades required, which include carpenters, cement masons, electricians, ironworkers, plumbers, and truck drivers, there will be opportunities for those with varying degrees of skill. Women and minorities, as well as the unemployed, will be able to find many entry level opportunities as a result of the infrastructure rebuilding program.

The concern has been stated that most of the Nation's unemployed are from industries other than construction, such as manufacturing, and that an infrastructure program may not help them. The 1.2 million unemployed in the construction industry is a substantial number in and of itself.

It should also be remembered that an infrastructure program is capable of producing as many as 63,000 real and lasting beneficial jobs per $1 billion of expenditures with a direct impact on unemployment in many manufacturing industries. Construction is a products-consuming industry which generates a very large number of jobs in other sectors of the economy, including steel, glass, aluminum, copper, cement, petroleum, plastics, rubber, and many more.

It must also be recognized that many of the unemployed in some industries will never be reemployed in the same industry. They will have to be retrained for other careers. Construction can provide many of those career opportunities.

AGC believes that an effective program to deal with the Nation's infrastructure needs should and can be an integral part of addressing our Nation's unemployment problems. It is beyond question, and very timely today that such a program will create employment for millions of workers and stimulate the economy to recovery and growth.

America's manufacturers of steel, glass, plastics, fibers, pipe, cement, wire, and paint are just some of the industries that are absolutely dependent on a vibrant construction industry—an industry which, with the other industries dependent on its good health, is responsible for more than 20 percent of American employment. Construction is the engine that drives the rest of our economy. When the construction industry is provided with the funding stimulus it needs, and which government at all levels must provide, or risk, the total disintegration of our public facilities, the construction industry will lead America to real economic recovery.

Senator **Quayle**. Thank you very much, Mr. Fay.

In your conclusion you talk about "When the construction industry is provided with the funding stimulus it needs, and which government at all levels must provide or risk the total disintegration of our public facilities, the construction will lead America to real economic recovery."

I wonder if you would comment on the impact that lower interest rates would have on creating to more jobs in the construction industry and general recovery—the construction industry being related to the entire economy.

Mr. **Fay**. I think it is a twofold problem. The decay of the infrastructure has resulted in a bad climate which is unattractive to new investors and new businesses. We envision a twofold process. First municipalities at all levels, have to rebuild and with the lower interest rates, private industries will be encouraged to invest, to build new private buildings and to reestablish old industries or start new with high-technology industries. However we feel that there must be a concern that it is an overall program. For example, without an adequate sewage system or water treatment facility electric supply, you cannot attract investment, even with lower interest rates. So you need the total program, we feel, to make the whole economy much more dynamic.

Senator **Quayle**. You listed a number of items that I think come to about $1 trillion worth of public works construction. I wonder if there are a couple of those that might receive a priority because there is no way we could afford $1 trillion public works project.

Mr. **Fay**. We start high and chop it down.

Senator **Quayle**. They negotiate that way in this town.

Mr. **Fay**. We have a two-pronged program. You want to certainly hit the areas with the greatest needs and high unemployment first. So you would probably delegate the infrastructure programs in those areas to try to channel them into an overall picture so that we can rebuild our streets and transportation system and that in turn might help an ailing industry plus bring in new industries with necessary infrastructure facilities to transport their goods to the marketplace and so forth. So certainly no one would expect that $1 trillion would be spent.

We think a logical approach would be funding over a good period of time so we are not creating interim jobs that are terminal in nature. We want to train people in a skilled occupation so they will be able to extend constant employment into long term careers.

In construction constant employment is not a 2,000-hour year. It is something like 1,200 to 1,500 hours a year compared to other industries. But our wages are such to address that difference.

We are trying to look for a program that will train and retrain people, and make them a viable continuing part of a work force.

Senator QUAYLE. One final question.

Are federally funded construction projects more expensive than State and local projects because of the Davis-Bacon requirement, or is there any way to differentiate the cost of those projects on that basis?

Mr. FAY. No, I do not think that Federal projects are more expensive. They might be more expensive in total dollars because they are much larger, more extensive projects when you consider projects such as Tennessee-Tom Bigbee. Construction services with or without Davis Bacon, is an excellent buy in today's market.

For example, in the State of Maryland, there was a State job that had an engineer's estimate of $32 million. That job attracted over 20 bidders. The lowest bidder was $20 million and it was not even until you got to the 18th or 19th bidder that you even got close to the engineer's estimate.

In addition Davis-Bacon Federal requirements do not at this particular time tend to, we feel, make Federal work any more expensive than local because most local authorities, municipalities, and States such as Pennsylvania where I come from also have a little Davis-Bacon with prevailing wage rates requirements.

Senator QUAYLE. Thank you very much and thank you for staying within the allotted time.

Next, from the AFL-CIO, Rudy Oswald, director of economic research, accompanied by Bob McGlotten, associate director of the legislative department.

Are both of you going to testify?

Mr. OSWALD. No.

Senator QUAYLE. Ten minutes.

Go ahead.

STATEMENT OF RUDY OSWALD, DIRECTOR, ECONOMIC RESEARCH, AFL-CIO, ACCOMPANIED BY BOB McGLOTTEN, ASSOCIATE DIRECTOR, LEGISLATIVE DEPARTMENT; AND MARK ROBERTS, COUNSEL, AFL-CIO

Mr. OSWALD. I also have accompanying me Dr. Mark Roberts, counsel to the AFL-CIO.

I ask that my entire statement be made a part of the record, including a description of the broad jobs for progress program that discusses the overall macroconcerns, the trade issues, the monetary issues, and many of the issues of public works jobs and housing activities, and also an appendix that deals with the increase in unemployment over the past 2 years, the particular sectors of our economy that have suffered so greatly.

If I may, I would like to summarize my written statement.

Senator **Quayle**. That testimony will be inserted in the record.

Mr. **Oswald**. 12 million Americans—nearly 1 out of every 9 workers—are jobless and seeking work. Each month, the number of jobs dwindles. Unemployment has reached near depression levels, human suffering has spead across the land, and growing numbers of plants and factories have been idled. The economic outlook is that unemployment will still be as severe a year from now as it is today.

Job opportunities must be made available to unemployed men and women who cannot find jobs in the private sector. This means there must be direct, targeted and adequately funded large-scale public employment programs. It also means quick action to get these jobs programs under way immediately.

It is clearly in the economic and social interest of the Nation to put Americans who are able and willing to work into productive jobs which generate taxes, produce useful community services and community improvements, and stimulate the economy in communities with high unemployment.

The AFL-CIO calls upon Congress to enact three major jobs programs: (a) community development supplemental jobs; (b) accelerated public works; and (c) low- and moderate-income housing construction and rehabilitation.

These programs would be designed to meet public needs and to simultaneously provide job opportunities for large numbers of today's jobless. While job training programs and aid in relocation are important programs, it must be recognized that the number of unemployed persons far exceeds the job opportunities now available or likely to become available under current economic policies.

I would like to describe what we believe is a new program, the community development supplemental jobs that may be of particular interest to this Committee.

Community development supplemental jobs would be a new program that puts people to work in traditional local governmental jobs and is financed by Federal funds.

The jobs to be financed would be 1-year temporary jobs in services traditionally performed by local government but not being performed because of recession-induced budget constraints.

The new "community development supplemental jobs" program should be aimed at areas with high unemployment, with the funds to be allocated to States and localities in proportion to the area's unemployment. The easiest and quickest way to get Federal money out for jobs in high unemployment communities is to distribute these funds to communities on a formula which is based on unemployment. A minimum of 85 percent of these funds should be required to go into employment compensation.

To assure maintenance of local government effors the jobs should be over and above the number of people on the community payroll during the month of December 1982, and there should be prohibitions against substitution or displacement of regular workers. The people hired under the new "community development supplemental jobs" program should be treated exactly the same as other workers on the local community payroll. Of course, there should be appropriate equal employment opportunity safeguards for women and minorities.

With this simplified approach, the new "community development supplemental jobs" program would avoid many of the problems that occurred under the CETA public service employment program.

In every community, there is work to be done that is vital to that community's economic health and public wellbeing, but which has been neglected. Because of declining tax revenues and Federal budget cuts, many of these communities need help to maintain essential public services and facilities. Because of the recession, there are more people who need the help of services which the local government cannot provide because of a shortage of funds. Federal funds should be provided to communities with high unemployment to put local unemployed people to work immediately.

We provide examples of the community needs that are not being met today. We think that this program could be started quickly by the communities just expanding their existing jobs activities and undertaking new ones if warranted. It could be done quickly with a modicum of red tape.

Each community could use the funds for whatever jobs it deemed most appropriate. The countercyclical effects of the program would be positive, with the money spent quickly by local sponsors. The funds could be targeted quickly to the areas that need it most, and at the same time accomplish needed community work.

A year ago, the AFL-CIO called for a $5 billion program to fund a public service employment program. In light of the severe worsening of unemployment, the AFL-CIO now calls upon Congress to fund by $10 billion the new community development supplemental jobs program.

We spell out the need for accelerated public works and, as you review Dr. Rivlin's testimony earlier, both our testimony and our supplement describe the experience with the earlier accelerated public works program. We found that many of those jobs were started very quickly, even though they were paid for later as the funds were released for the public works after the people were already employed.

The Commerce Department found that under the accelerated works program, some 90 percent of the people were employed within 6 months of the passage by Congress of its public works program.

One other area that we think is critical in that respect is housing, which we believe is suffering so greatly in terms of the current level of housing at 1 million new housing starts a year and its impact on the shortage, particularly for low- and moderate-income families. We believe that additional funding for housing would not only provide a needed shelter service but provide jobs for many people and particularly in the construction industry, employment levels are some 22 percent.

The AFL-CIO has attempted to address high unemployment by suggesting a broad, comprehensive economic program. Such a program should include an effective monetary policy and an effective trade policy, both of which can make significant contributions to job creation and economic recovery without additional expenditure of public funds.

We recognize that many of the job-creating programs will cost money and in the near term would enlarge the budget deficit even further. Deficit increases, however, could be blunted or avoided through tax policies that put a lid on the July tax cut.

We have urged a maximum cut of $700 per family and plugging some of the long-standing loopholes that hurt the economy and destroy jobs.

America needs jobs. There is no higher economic priority and no more urgent economic agenda.

Thank you.

[The prepared statement of Mr. Oswald along with additional material submitted follows:]

83-1

STATEMENT BY RUDY OSWALD, DIRECTOR, DEPARTMENT OF ECONOMIC RESEARCH, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS, TO THE SENATE SUBCOMMITTEE ON EMPLOYMENT AND PRODUCTIVITY ON FEDERAL JOB CREATION PROGRAMS

January 12, 1983

Twelve million Americans -- nearly one out of every nine workers -- are jobless and seeking work. Each month, the number of jobs dwindles. Unemployment has reached near depression levels, human suffering has spread across the land, and growing numbers of plants and factories have been idled. The economic outlook is that unemployment will still be as severe a year from now as it is today.

Job opportunities must be made available to unemployed men and women who cannot find jobs in the private sector. This means there must be direct, targeted and adequately funded large-scale public employment programs. It also means quick action to get these job programs under way immediately.

When the private sector cannot provide enough jobs, the federal government must step in. That is the mandate of the Employment Act of 1946, reaffirmed in 1978 by the Humphrey-Hawkins Full Employment and Balanced Economic Growth Act.

It is clearly in the economic and social interest of the nation to put Americans who are able and willing to work into productive jobs which generate taxes, produce useful community services and community improvements, and stimulate the economy in communities with high unemployment.

The AFL-CIO calls upon Congress to enact three major jobs programs: a) community development supplemental jobs; b) accelerated public works; and c) low and moderate income housing construction and rehabilitation.

These programs would be designed to meet public needs and to simultaneously provide job opportunities for large numbers of today's jobless. While job training programs and aid in relocation are important programs, it must be recognized that the number of unemployed persons far exceeds the job opportunities now available or likely to become available under current economic policies.

The Reagan Administration's response to joblessness has essentially been a hands-off approach -- let the market take care of the problems. The President has urged every employer to hire one additional worker. But these nostrums do not provide jobs or income to keep bread on the table of the unemployed. Thus, Congress must step in with an effective jobs program.

Job creation is a moral, social, political, and economic imperative. Unemployment generates tremendous social losses which include physical and mental illness, family disorganization, social alienation, and crime.

For every one million jobless workers, America foregoes the production of nearly $100 billion in goods and services and the federal treasury loses $30 billion.

Community Development Supplemental Jobs

Community development supplemental jobs should be a new program that puts people to work in traditional local governmental jobs and is financed by federal funds.

The jobs to be financed would be one-year temporary jobs in services traditionally performed by local government but not being performed because of recession-induced budget constraints.

The new "community development supplemental jobs" program should be aimed at areas with high unemployment, with the funds to be allocated to states and localities in proportion to the area's unemployment. The easiest and quickest way to get federal money out for jobs in high unemployment communities is to distribute these "supplemental jobs" funds to communities on a formula which is based on unemployment. A minimum of 85 percent of these funds should be required to go into employee compensation.

To assure maintenance of local government effort the jobs should be over and above the number of people on the community payroll during the month of December 1982 and there should be prohibitions against substitution or displacement of regular workers. The people hired under the new "community development supplemental jobs" program should be treated exactly the same as other workers on the local community payroll. Of course, there should be appropriate equal employment opportunity safeguards for women and minorites.

With this simplified approach, the new "community development supplemental jobs" program would avoid many of the problems that occurred under the CETA public service employment program.

In every community, there is work to be done that is vital to that community's economic health and public well-being, but which has been neglected. Because of declining tax revenues and federal budget cuts, many of these communities need help to maintain essential public services and facilities. Because of the recession, there are more people who need the help of services which the local government cannot provide because of a shortage of funds. Federal funds should be provided to communities with high unemployment to put local unemployed people to work immediately.

Examples of needed community repair and service activities include:

- Helping working mothers with child care;
- Police and traffic control to free regular police for full-time duty;
- Increased staff support for adult and juvenile correctional facilities;
- Security guards for schools and housing projects;

- Staff support for community health centers and preventive health screening and immunization programs;
- Rat and mosquito control;
- Twice a week garbage collection;
- Patching potholes and other minor road repair;
- Traffic control signs and removal of road sign obstructions;
- Park and streams clean-up;
- School crossing and intersection markings;
- Home security for elderly and low-income people;
- Weatherization of public buildings and low-income homes.

These jobs could be started quickly as communities could just expand existing programs or undertake new ones if warranted. It could be done quickly with a modicum of red tape. Each community could use the funds for whatever jobs it deemed most appropriate. The countercyclical effects of the program would be positive, with the money spent quickly by local sponsors. The funds could be targeted quickly to the areas that need it most, and at the same time accomplish needed community work.

A year ago, the AFl-CIO had called for $5 billion to fund a public service employment program. In light of the severe worsening of unemployment, the AFL-CIO now calls upon Congress to fund by $10 billion the new community development supplemental jobs program.

Accelerated Public Works and Housing

Accelerated public works could be another effective jobs program, just as it has in previous recessions and the Depression.

Public investments have fallen far behind in providing basic support facilities critical to private-sector jobs, investment and productivity, like roads, bridges, water and sewer systems, transportation and port facilities. America's infrastructure is rapidly deteriorating and seriously holding back economic progress.

Investments in public works provide jobs and an essential underpinning for economic growth and are a critical complement to private sector investment and productivity. For years this nation short-changed investments in public facilities related to health, education, energy, safety, solid waste removal, water supply, parks, highways, bridges, ports, railroads, and urban transit. The result is a huge backlog of public capital needs and a major impediment to growth and the attainment of the nation's productive potential. Public works jobs can be generated through this urban infrastructure.

The new highway program is just a beginning in addressing the problems of public infrastructure. A new accelerated public works program should be quickly enacted by Congress.

Housing is essential to the anti-recession job-creation effort. More government support will increase the supply of housing for low and middle-income families. Expansion of existing housing programs will create jobs in the construction industry where one in five workers are unemployed. This will also help reduce inflation in housing by expanding the supply of affordable homes.

Congress needs to expand existing housing programs and enact new programs to both meet the nation's housing needs of low and moderate income families, and provide jobs for the unemployed.

This testimony has focused particularly on job-creation through a new community-development supplemental jobs program, but the AFL-CIO has set forth a broad and comprehensive economic program to pull the economy up out of the present recession-depression. Such a program should include an effective monetary policy and an effective trade policy both of which can make significant contributions to job creation and economic recovery without additional expenditure of public funds. The attached statement from the AFL-CIO Federationist contains an outline of an AFL-CIO agenda for progress.

We recognize that many of the job-creating programs will cost money and in the near term would enlarge the budget deficit even further. Deficit increases, however, could be blunted or avoided through tax policies that put a lid on the July tax-cut (for example a maximum cut of $700) and by plugging some of the long-standing loopholes that hurt the economy and destroy jobs.

America needs jobs. There is no higher economic priority and no more urgent economic agenda.

NEWS
AFL-CIO

DEPARTMENT OF INFORMATION
202/637-5010

FOR RELEASE:

IMMEDIATE USE, FRIDAY, JANUARY 7, 1983

In December, joblessness worsened, the number of discouraged job seekers rose, the total number of jobs declined, the average duration of joblessness lengthened, and the average hours of work for those still employed, fell. Behind the bleak number are the sufferings of 12 million unemployed Americans, 4.1 million more than 2 years ago, just before President Reagan took office.

AFL-CIO President Lane Kirkland said:

> "These new unemployment figures are further proof that the national economy is still wallowing in the recession brought on by the Administration's discredited policy experiments.
>
> "The new record number of workers who have simply given up hope of finding jobs is an index of national misery and an accurate measure of the failure of the Reagan program.
>
> "The country has now endured two years of rising unemployment. Most forecasters believe there is more bad news to come. Clearly, now is the time for the President and the Congress to change the course and put America back to work."

The burden of unemployment has fallen particularly upon adult males, the traditional family breadwinners, with their unemployment rate soaring from 6.1% two years ago to 10.1% today. Unemployment among adult women also worsened substantially rising from 6.7% to 9.2%. Black Americans are suffering a 20.8 rate unemployment and blue collar workers 16.3%. The jobless rate for all teenagers reached 24.5%. For black teenagers, the rate was 49.5%. The average unemployed worker has been looking for work for 18 weeks.

The AFL-CIO reiterates its call for the President and the Congress to act quickly to provide jobs program to put people back to work; to extend unemployment benefits to protect those whose benefits are expiring and to provide health care for the jobless and their families who have lost protection. Economic policy must be changed to make the national goal an early return to full employment.

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Contact: Murray Seeger, Director, AFL-CIO Department of Information 202/637-5010

1-7-83

Unemployment
December 1982 compared to December 1980 & 1981

The Labor Department's report of a 10.8 percent unemployment rate for December demonstrates the continued serious unemployment problem. December's unemployment rate at 10.8 percent stays at the record level of the previous month, and compares to 8.6 percent a year ago, and 7.3 percent in December of 1980, the month prior to the inauguration of the Reagan Administration.

The disastrous economic performance in recent months contrasts sharply with the projections of the Reagan Administration. For the last three months of 1982 the unemployment rate averaged 10.7 percent. Yet earlier in the year the Administration forecast a year-end unemployment rate of 8.4 percent.

Official unemployment reached 12 million in December, an increase of 3.0 million from a year earlier, and 4.1 million greater than December 1980. An additional 1.8 million workers had given up entirely on the desperate and fruitless search for work, and 6.4 million were forced to work part-time because of the depressed economy. Thus, at a minimum, 20.2 million Americans are currently suffering job loss and income loss.

Unemployment among adult men increased by 4 percent in the two years from December of 1980 to December 1982, by 2.5 percent for adult women, and 6.7 percent for teenagers of both sexes. For December 1982, the unemployment rate for adult men was 10.1 percent, up from 6.2 percent in December 1980. For adult women, the unemployment rate has increased from 6.7 percent in December 1980 to 9.2 percent last month. And for teenagers, the unemployment rate rose to 24.5 percent in December 1982, from 17.8 percent two years earlier.

White unemployment increased to 9.7 percent in December from 6.5 percent in December 1980. Black unemployment stood at 20.8 percent last month, compared to 15.1 percent two years before. Among people of Hispanic origin, unemployment has increased by 5.8 percent in two years, rising from 9.5 percent in December 1980 to 15.3 percent last month.

In December, 4.7 million of the unemployed had been jobless for 15 weeks or longer. Of these, 2.6 million have been without work for more than six months. The average duration of unemployment reached 18 weeks, compared to 13.5 weeks in December 1980.

Even though historically high numbers of people have been receiving unemployment compensation in recent months, relative to the total number unemployed, the percent receiving compensation is lower than during previous postwar recessions. During early December, approximately 5.6 million people were receiving unemployment comp. each week. This represents 47 percent of the total persons unemployed. By contrast, during the months of greatest unemployment in the previous worst postwar recession, 1974-75, the percent receiving unemployment comp. ranged above 60 percent, reaching 76 percent in February 1975.

Total nonagricultural employment according to the establishment data series, has declined for 15 consecutive months and is 2.4 million below the level of December 1980. Employment has declined in every major industry group except finance and services, which have experienced very small increases of 2.3 percent and 5 percent respectively, in the two years since December 1980.

The greatest decline has occurred in manufacturing, where unemployment has fallen during each of the last 17 months and is 2 million below the December 1980 level. This represents a decline of 10.1 percent. The overwhelming bulk (92 percent) of this manufacturing decline has hit production workers. Employment of manufacturing production workers has fallen by 13.4 percent from December 1980 to December 1982, while non-production employment has decreased by 2.5 percent.

The unemployment rate among manufacturing workers increased to 14.8 percent last month, from 8.8 percent two years ago.

Construction employment has fallen by 13 percent from December 1980 to December 1982. The unemployment rate in construction was 22 percent last month, up from 13.8 percent two years earlier.

Overall, blue collar unemployment has soared to 16.3 percent from 10.4 percent two years ago, while white collar unemployment stands at 5.6 percent compared to 3.9 percent.

Of the ten largest states, Michigan had the highest unemployment at 17.6 percent, followed by Ohio 14.5 percent, Pennsylvania 12.9 percent, Illinois 12.8 percent, and California 11.1 percent.

UNEMPLOYMENT: December 1980,1981,1982

Number Unemployed (000s)	Dec. 1980	Dec. 1981	Dec. 1982	% change Dec. 1980-Dec. 1982
TOTAL	7,899	9,013	12,036	+ 52.4%
Males, 20 years +	3,476	4,343	5,909	+ 70.0
Females, 20 years +	2,783	2,991	4,071	+ 46.3
Both sexes, 16-19 years	1,640	1,679	2,056	+ 25.4
White	6,002	7,295	9,421	+ 57.0
Black	1,651	1,924	2,395	+ 45.1
Hispanic Origin	560	682	900	+ 60.7

Unemployment Rate	Dec. 1980	Dec. 1981	Dec. 1982	% point change Dec. 1980-Dec. 1982
TOTAL	7.3%	8.6%	10.8%	+ 3.5%
Males, 20 years +	6.1	7.6	10.1	+ 4.0
Female, 20 years +	6.7	6.9	9.2	+ 2.5
Both sexes, 16-19 years	17.8	20.5	24.5	+ 6.7
White	6.4	7.6	9.7	+ 3.3
Black	15.1	17.2	20.8	+ 5.7
Hispanic Origin	9.5	11.2	15.3	+ 5.8

U.S. Bureau of Labor Statistics, household series, seasonally adjsuted.

DURATION OF UNEMPLOYMENT
(# in thousands)

	Dec. 1980	Dec. 1981	Dec. 1982	% change Dec. 1980-Dec. 1982
15 weeks +	2,378	2,407	4,732	+ 99.0%
15-26 weeks	1,231	1,224	2,125	+ 72.6
27 weeks +	1,147	1,183	2,607	+ 127.3
Average duration in weeks	13.5	12.9	18.0	+ 33.3

INVOLUNTARY PART-TIME EMPLOYMENT

	Dec. 1980	Dec. 1981	Dec. 1982	
# in thousands	4,191	5,325	6,425	+ 53.3%

DISCOURAGED WORKERS

	1980: IV	1981: IV	1982: IV	
# in thousands	1,055	1,191	1,849	+ 75.3%

SELECTED UNEMPLOYMENT RATES

	Dec. 1980	Dec. 1981	Dec. 1982	% point change Dec. 1980-Dec. 1982
construction	13.8	18.0	22.0	+ 8.2%
manufacturing	8.8	10.8	14.8	+ 6.0
durables	9.1	11.6	17.1	+ 8.0
nondurables	8.4	9.6	11.4	+ 3.0
White collar	3.9	4.5	5.6	+ 1.7
Blue collar	10.4	12.6	16.3	+ 5.9

NONAGRICULTURAL EMPLOYMENT: December 1980, 1981, 1982

(in thousands)

Industry	Dec.1980	Dec. 1981	Dec.1982		absolute change Dec. 1980-Dec. 1982	percentage change Dec. 1980-Dec. 1982
Total	90,949	90,642	88,518		- 2,431	- 2.7%
Goods-producing	25,631	24,908	22,988		- 2,643	- 10.3
Mining	1,069	1,206	1,036		- 33	- 3.1
Construction	4,387	4,026	3,818		- 569	- 13.0
Manufacturing	20,175	19,676	18,134		- 2,041	- 10.1
Durables	12,077	11,724	10,533		- 1,544	- 12.8
Nondurables	8,098	7,952	7,601		- 497	- [illegible]
Service-producing	65,318	65,734	65,530		+ 212	+ 0.3
Transp. & Utilities	5,118	5,128	4,979		- 139	- 2.7
Trade	20,470	20,524	20,297		- 173	- 0.8
Finance	5,254	5,331	5,376		+ 122	+ 2.3
Services	18,240	18,834	19,143		+ 903	+ 5.0
Government	16,236	15,917	15,735		- 501	- 3.1
Federal	2,800	2,756	2,728		- 72	- 2.6
State & Local	13,436	13,161	13,007		- 429	- 3.2

U.S. Bureau of Labor Statistics, establishment data, seasonally adjusted

MANUFACTURING EMPLOYMENT: December 1980, 1981, 1982

(in thousands)

Industry	Dec.1980	Dec.1981	Dec.1982		absolute change Dec. 1980-Dec. 1982	percentage change Dec. 1980-Dec. 1982
Manufacturing	20,175	19,676	18,134		- 2,041	- 10.1%
Durables	12,077	11,724	10,533		- 1,544	- 12.8
Lumber	687	615	619		- 68	- 9.9
Furniture	464	457	435		- 29	- 6.3
Stone	655	610	553		- 102	- 15.6
Primary Metals	1,137	1,053	806		- 331	- 29.1
Fabricated	1,581	1,529	1,364		- 217	- 13.7
Machinery	2,490	2,486	2,095		- 395	- 15.9
Electrical	2,103	2,049	1,939		- 164	- 7.8
Transportation	1,839	1,791	1,664		- 175	- 9.5
Instruments	712	725	685		- 27	- 3.8
Miscellaneous	409	409	373		- 36	- 8.8
Nondurable	8,098	7,952	7,601		- 497	- 6.1
Food	1,701	1,661	1,632		- 69	- 4.1
Tobacco	71	68	63		- 8	- 11.3
Textile	842	794	720		- 122	- 14.5
Apparel	1,250	1,222	1,128		- 122	- 9.8
Paper	692	677	650		- 42	- 6.1
Printing	1,269	1,276	1,265		- 4	- 0.3
Chemicals	1,105	1,100	1,055		- 50	- 4.5
Petroleum	209	214	206		- 3	- 1.4
Rubber	729	716	679		- 50	- 6.9
Leather	230	226	203		- 27	- 11.7
Production workers	14,059	13,488	12,173		- 1,886	- 13.4
Non-production workers	6,116	6,188	5,961		- 155	- 2.5

source: U.S. Bureau of Labor Statistics, establishment data, seasonally adjusted

UNEMPLOYMENT RATES: Ten Largest States

	Dec. 1980	Dec. 1981	Dec. 1982	% point change Dec. 1980-Dec. 1982
California	6.4%	8.6%	11.1%	+ 4.7%
Florida	5.4	7.7	9.9	+ 4.5
Illinois	9.0	8.8	12.8	+ 3.8
Massachussetts	4.8	7.4	7.7	+ 2.9
Michigan	12.7	14.9	17.6	+ 4.9
New Jersey	7.9	7.7	9.3	+ 1.4
New York	7.4	8.2	9.0	+ 1.6
Ohio	9.0	12.2	14.5	+ 5.5
Pennsylvania	7.8	9.6	12.9	+ 5.1
Texas	5.5	5.1	8.0	+ 2.5

Senator QUAYLE. Thank you very much. Thank you for staying within the time limit.

I would like to pick up on your conclusion on the deficit. I know you have heard Dr. Rivlin talk about the fact that expanding the deficit would be counterproductive. If we just go ahead and create programs to counter unemployment, there would certainly be a great risk. You mention holding down the deficits and then you talk about a revision of tax policies, specifically capping the July tax cut or some other loopholes

As Dr. Rivlin pointed out, I wonder what the alternative would be to cutting spending. We talked about possibly holding down the lid on entitlement programs and perhaps reducing defense spending. I wonder, if the Congress were to go ahead with a jobs creation program, something like the $10 million program you are referring to, are there other ways of holding down spending?

Would you add that to it or not? It is not in the statement. It may be in the more comprehensive statement.

Mr. OSWALD. Senator, one of the major areas of discussion of cutting expenditures has been in the defense area. It is one of the major questions that have been facing the country in terms of what we have been spending in that area. The AFL-CIO set up a special subcommittee of its executive council that has been reviewing in great detail defense needs and programs and policies and at our February council meeting will make a recommendation in terms of what to do on the defense side.

We believe that expenditures should all be reviewed to see whether they are appropriate. However, we feel that in general the cuts that have been made in the last 2 years have been too severe. Mrs. Rivlin talked a little bit about the question of do you get net added jobs. We think there are a number of tax changes where you do get net added jobs. For example, the foreign tax credit means that a company that pays taxes to a foreign government gets a credit against its U.S. tax for that year. But if that company is paying an income tax to the State of Indiana, it only gets a deduction. If you change that credit to a deduction, you would get substantial savings. I believe the estimates are around $4 billion to $8 billion a year and I would be happy to add to the record the exact amount. That is revenue that currently, in essence, goes to foreign countries because we provide a tax credit for that instead of a deduction.

There are a number of other changes where you do get net additional spending because the money is immediately put to work to hire people in distinction to the way that money may currently be spent.

Senator QUAYLE. Your emphasis would be on tax policy, the revenue side, rather than the spending side, unless you may come up with something on defense which you are in the process of studying?

Mr. OSWALD. That is correct.

Senator QUAYLE. But you would not be inclined, as others have suggested, I believe the mayor of Cleveland, and I know Alice Rivlin did, that we have to look at the entitlement programs as well as the deficit? I think Congress would probably have to examine everything across the board and try to be fair and equitable, as much as possible. We must look at the revenues and also spending reductions, if we are going to go ahead with a jobs creation proposal, particularly of the magnitude you are suggesting.

Mr. OSWALD. Certainly, the biggest program, social security, is being reviewed in great detail. We feel many of the cuts, particularly in medicaid, have been disasterous because unemployed workers who before, when they were put out of work, became eligible for health care under medicaid, because of the cuts that were made, no longer become eligible because they have assets, a home that they live in, a car that they drive, assets that are too high to make them eligible for medicaid and we are doing exactly the opposite of what we want to do, I would think, in terms of public policy, which is to provide for the health of the people who become unemployed, not punish them through further cuts in that type of a program.

Senator QUAYLE. Let me ask you one final question. And I also discussed this with Dr. Rivlin.

Do you think that it would be advantageous for us to attempt to pursue present labor-intensive Federal programs that we presently have, for example, perhaps accelerating spending already on the books? If so, do you have any candidate?

Mr. OSWALD. Housing is the one item that comes most quickly to mind. I gather there is almost three-quarters of a billion dollars of funds that could be used. There is money I understand in both the Clean Air and Clean Water Act that has not been spent as well as some of the toxic substances programs that have been very slow in terms of moving a number of those programs that we think would help.

Senator QUAYLE. Do you think that would be a viable option that we could pursue to accelerate some of this spending in the current public works program?

Mr. OSWALD. Sure. Slowing down should occur when you are worrying about inflationary pressures. Accelerating should be used at a period when we have high unemployment. No one of these programs is the total cure-all for unemployment. Our new community supplemental jobs is not a total cure-all. I think it is a combination of these programs that offers some hope for people who currently cannot find any work.

Senator **Quayle**. Thank you, gentlemen.

Next, we have a panel from The Heritage Foundation.

It is my understanding that each one will testify. I believe we will also limit the remarks to 5 minutes.

So, Dr. Butler?

STATEMENTS OF DR. STUART M. BUTLER, DIRECTOR OF ECONOMIC STUDIES; PETER GERMANIS, POLICY ANALYST; AND DR. RICHARD B. McKENZIE, PROFESSOR OF ECONOMICS, CLEMSON UNIVERSITY, SOUTH CAROLINA THE HERITAGE FOUNDATION

Mr. **Butler**. Thank you very much for the opportunity to testify. I have supplied a written testimony which I would like to have put in the record.

Senator **Quayle**. It will be incorporated in the record.

Mr. **Butler**. I would just like to emphasize three major points and make some broad recommendations.

The first point is that if there is one term in economics which is very important, that is the idea of opportunity cost. When you conduct or finance one program, it does tend to have effects elsewhere in the economy. I think the defects of so many programs that have been suggested, and legislation that has been passed recently (such as the gasoline tax increase) is that these may well create jobs in certain parts of the economy, but the extra costs passed on throughout the economy will have effects on what I call invisible jobs, jobs that are lost throughout the country. These effects should lead us to be very suspicious of suggestions such as made by Mayor Voinovich, whom I admire a great deal, to forego the coming tax reduction in July, because the consequences of that in reductions in spending and saving will be enormous. Job creation will be inhibited throughout the economy.

The second main point is that we do have strong evidence of a very poor track record of trying to channel Federal, or any form of public resources, into specific industries. I was rather dismayed at the idea of a trillion dollar program aimed through the construction industry. I suspect that many of those jobs created would not be in the most efficient areas. The awarding of contracts would be more sensitive to political aspects and other considerations.

I think it is also clear that the experience of this country, and my own country, in trying to secondguess the industries where the growth is going to be, has been very bad. Again, decision have been subject to all kinds of considerations other than pure efficiency, and so I think that we would be wrong to take resources from the economy and try to push them into areas where Government officials think that they can out-guess the market in providing jobs.

The third point I would like to make is that it is essential to appreciate what the evidence suggests regarding where jobs actually come from in the economy. There is overwhelming evidence that jobs tend to come from smaller new businesses, particularly those businesses that are 3 or 4 years old; businesses at what we might call the takeoff stage of jobs creation.

I note, and I think you are fully aware, that there has been a recent study from our friends at Brookings that cast some doubt on this, and so I have appended an analysis of the Brookings study by David Birch of MIT. It remains very clear that small firms are the seed corn of the economy and we should be concentrating on increasing their startup and survival rate.

There has been a great deal of concern expressed at the level of bankruptcies in recent years, particularly in this recession. But what is often overlooked is the enormous increase in startup rates. We have the second-highest ever level of startup rates of new businesses and it is important to keep that rate growing and to keep those businesses alive. There are certain things that we could do to achieve this objective. It is clear, for instance, that a lot of business failures are due to frustrating regulations at the State and local level, and to some extent at the Federal level. I think we should take the lead in encouraging States and localities to look very hard at zoning, building codes, occupational licenses and other restrictions that make it very difficult for people to go into business and create jobs. This is particularly important in very depressed neighborhoods.

We find that single headed families also find it very difficult to work at home, simply because local regulations prevent them from operating businesses, and those kinds of regulations we can remove, at no cost to the Treasury, to encourage business and thus job creation.

In terms of tax policy, it is very important to appreciate that in countries which seem to have a good track record of job creation, such as Japan, the tax structure specifically encourages savings and investment. It would be folly in this country to go backward, against the general trend that has been established in the last 2 years. I would support the suggestion made earlier of extending IRA's. There is a very clear determination that IRA's have been effective. They have helped to lower interest rates and have encouraged significant job creation.

I have also appended to my written testimony an idea that I almost hesitate to say has come from Britain, with its 13-percent unemployment. The proposal involves sheltering investments in new small businesses so that small investors that are willing to take the high risk of going into small businesses would have a deferrment on their taxes. They would be treated as sort of a "small business IRA." This is the kind of tactical measure that might be very effective in stimulating new job creation.

And finally, let me put in a plug for the enterprise zone. Mayor Voinovich pointed out (I agree with this totally), that cities and States are all ready to go; in fact, they are surprised that the Federal Government, having encouraged them, has not already acted. We have had a bill before Congress for 2 years and still no action.

We have a program that has been discussed at great length and it would seem to be the kind of experiment we should go ahead with on the assumption that in 2 or 3 years time we will again be holding hearings on how to create new jobs. We should have something in place that has been tested.

Thank you.

[The prepared statement of Mr. Butler follows:]

PREPARED STATEMENT OF STUART M. BUTLER, DIRECTOR OF DOMESTIC POLICY STUDIES, THE HERITAGE FOUNDATION

My name is Stuart Butler. I am Director of Domestic Policy Studies at The Heritage Foundation in Washington. I am also an Adjunct Scholar at the National Center for Neighborhood Enterprise, an organization which has been studying job creation strategies in highly depressed inner city communities. In my work with both of these institutions, I have had the opportunity to consider a number of policy options for job creation in areas of hard-core unemployment. Let me add that the comments I am about to make represent my own conclusions and should not be construed as representing the position of any organization.

In periods of relatively high unemployment, there is always pressure within a democracy for the government to "do something." It was this kind of pressure which gave us the ill-conceived gasoline tax increase last December, and it is behind a number of federal so-called "jobs creation" programs suggested by Congressional leaders. But it is the duty of legislative leaders in a democracy to make decisions in the interests of all the nation's citizens and to do so in the light of the full facts rather than to help special interest groups on the basis of popular misconceptions. If Congress does act in such a responsible way, I think it is clear that it will turn its back on both federal jobs programs and measures to give selective support to certain industries. Instead, it will try to generate employment by recreating in this country a general climate of taxation and regulation which is conducive to risk-taking and enterprise. This broad approach will be far more effective, in the short run as well as the long run, at cutting the unemployment rate decisively and permanently.

As we search for new policies it is important to appreciate what has not been effective in the past. I will leave it to Richard McKenzie and to other witnesses to catalogue the failures of federal jobs programs. Let me just emphasize that the record shows that a) the jobs these programs "create" often do not come on line until well after the crisis has passed; b) they are not usually stable, long term jobs; and c) for each job produced, via federal subsidies, there are "invisible" jobs lost elsewhere in the economy because of tax increases and high interest rates resulting from the federal program.

Equally ineffective, in this and other countries, have been attempts by government to channel public resources into growth industries. In the United States, Britain, and even in Japan, government bureaucrats have demonstrated little ability to outguess the investment market. At best they have channeled resources into industries that are already adequately capitalized, such that the marginal productivity (and job generation) in the industry falls below that of other industries. At worst they have put money into projects that are politically sensitive rather then the firms of the future.

If we are to develop strategies that will work, we must first determine what segments of the economy actually produce jobs. Research by David Birch of MIT showed that 66 percent of all net new jobs are generated by firms with less than 20 employees, and that the best generators of all were small, volatile firms 3-5 years old. Birch's work has been corroborated by studies of California job-creation by Michael Tietz (using a different data base) and similar results have emerged from analyses conducted in several other countries. A discordant note was struck by a recent Brookings Institute study, but the Brookings analysis appears to suffer from some very serious methodological errors; a paper by Birch discussing these flaws is appended.

Given the critical importance of these major generators, it is clear that we sould be far more successful at cutting unemployment if we pursued policies designed to increase the birth rate of new, small firms, and to reduce their mortality rate.

Proprietors of small firms are not the easiest people in the world for government officials to deal with. Entrepreneurs tend to be strongly independent and suspicious of government programs. Their very independence and creativity causes them to view government, and its attendant rules, as an obstacle, not a partner. If we are to succeed in encouraging such firms to establish and grow we must appreciate this, and concentrate on developing an open climate for risk-taking.

The first element in that enhanced climate must be further deregulation. The decontrol of telecommunications has shown the enormous capital and inventive resources that can be unleashed when the federal government no longer tries to control the development of an industry. We have seen a remarkable explosion of small marketing and high tech firms forming thanks to government inaction.

The importance of simplifying state and local rules is often overlooked. The federal government should send a strong message to the states: Local rules cost jobs. There are a multitude of occupational licensing rules, zoning restrictions and other controls which seriously inhibit new business formation. This is a particular problem within inner city neighborhoods - where we see the highest levels of unemployment in the country. Many cities, for instance, place tight restrictions on the use of residential property for business purposes. But for many a female-headed family, taking in work at home is the only alternative to welfare. As the use of word-processers and home computers grows, these restrictions will place tremendous obstacles on the opportunities for low income people to use the new technology to generate employment. Moreover, licensing and zoning restrictions on daycare centers and other services compound the problem, because they make it very difficult for inner city people to combine work with raising a family.

The effect of simple restrictions of this kind on the establishment of new job-generating firms cannot be overestimated. They are a major impediment to job creation.

The second element of the climate package concerns taxation. It seems to have been taken as an act of faith in recent years that the best way to create jobs is to cut business taxes, so that firms can grow rapidly. I come from Britain, a country with very generous tax relief (50 percent of new industrial plant and machinery, for instance, can be deducted in the first year), paid for with high personal tax rates. But in Britain, as in this country, this has not been translated into jobs. Britain's low taxes on business reinvestment have merely allowed industrial dinasaurs to grow ever larger and less efficient, while high personal taxes have discouraged new enterprises - Britain has one of the oldest and tiniest small business sectors in the West. Japan, on the other hand, has pursued a tax policy aimed at stimulating personal savings and investment. Not surprisingly, the small business sector has benefited from low tax rates on personal income. Japan's small business suppliers are the backbone of the giant trading companies whose names we have been forced to respect. If we are to conduct a fiscal policy conducive to job creation, therefore, it should be based on further reductions in personal taxes, particularly those affecting savings, rather than business tax relief or cosmetic jobs bills. In this regard I would suggest that this subcommittee consider very seriously importing a British small business tax proposal that has worked. It is a tax device which allows small investors to shelter from income tax money thay use to purchase stock in new companies. This program has been in place in Britain for a year, and covers new businesses of any size in any location. The British authorities have been very gratified by the results so far.

The U.S. Treasury Department strongly opposes the proposal, arguing that it would lead to heavy losses of tax revenue with little job creation. Yet the British model was designed to minimize loopholes, and appears to be working well. I have provided a short summary of the British program for the subcommittee. As you will see, most of the Treasury's objections were dealt with in the legislation. Moreover, the proposal could be enacted as an experiment, and restricted to small firms within areas of very high unemployment - it has, indeed, been suggested as an amendment to the President's enterprise zone proposal.

In conclusion, the desire to develop initiatives within the Congress to reduce high unemployment - which is the inescapable short-term side effect of breaking the grip of inflation - should not cause us to enact measures which have failed before, and to misunderstand the nature of the job-generation process. Congress should move, instead, to reduce regulation and personal tax rates, with a view to fostering new, creative business enterprises - the country's primary job generators.

Assumption vs. Reality in the Brookings Analysis of Small Business Job Creation

by

David L. Birch

Susan J. MacCracken

In its analysis of job creation by small business[1], Brookings used a data set obtained from Dun and Bradstreet. We obtained the same data and discovered, to our dismay, that it was virtually impossible to measure job creation directly from this particular file because of the short interval involved and the heavy editing of the file being done by D&B at the time.

Brookings realized this also and decided to base its analysis on a series of assumptions which, in our view: (1) bear little relationship to reality, and (2) systematically discriminate against small business. The following is a comparison of the major assumptions or assertions made by Brookings and the corresponding reality.

Assumption 1:	The Brookings analysis accurately describes the economy.
Reality :	The Brookings file contains 30 percent more jobs than the economy has workers (as defined by the Bureau of Labor Statistics and the Census Bureau).
Assumption 2:	The Brookings analysis covers change for most businesses.
Reality :	The studied interval (June 1979 to December 1980) is so short that D&B had not had time to check over 40 percent of the records in the file. For some large groups, only 10 to 15 percent of the records had been reviewed. The analysis is thus based on a (at times very small) sample of businesses that excludes many (and in some cases most) small businesses.
Assumption 3:	The Brookings analysis describes U.S. employment.
Reality :	For most large, multinational corporations, only total, world-wide employment is reported in the file. Thus, for instance, when RCA cut its U.S. domestic employment by 14,000 during the 1970's and expanded overseas by 19,000 (as it did), Brookings records that as a gain of 5,000 U.S. jobs.

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[1] See, for example, Armington and Odle, Sources of Employment Growth 1978 - 1980. (The Brookings Institution; March, 1982).

Assumption 4: The Brookings analysis represents large businesses accurately.

Reality : The Brookings file shows the 500 or so largest industrial companies (which are updated quarterly by D&B) growing by 900,000 U.S. jobs between 1979 and 1980 while Fortune magazine recorded an absolute drop of 300,000 jobs for this same group during the same period. The Fortune analysis includes overseas growth; domestic declines were thus even greater.

Assumption 5: The Brookings analysis covers the formation of most small, new companies.

Reality : Again, because of the short interval, only 20 or 30 percent of the new firm formations between 1979 and 1980 are contained in the file. D&B simply has not found them yet. Brookings compensates by treating any firm started between 1974 and 1978 as a new firm started in the 1979-80 period. It thereby misses most small-firm growth (which takes place in the first 4 years) and misclassifies as large any young small firm that grows significantly.

Assumption 6: D&B does not drop records capriciously from its file.

Reality : D&B dropped 180,000 businesses (most of them small) from the file during 1980 because their addresses were out-of-date. Brookings treated many of these as the failures of small businesses.

Assumption 7: The Brookings analysis accurately reflects new branch plants and offices.

Reality : Brookings cannot distinguish between actual new plants and existing plants that D&B simply added to the file, including 10,000 existing Fortune 500 plants added during 1980.

It bases its branch growth, in most cases, on total, worldwide corporate employment growth, and thereby includes all employment in foreign operations, as in the RCA case. It also includes all growth due to erroneous employment totals reported by D&B. In the 1979-80 file, for example, two small companies (a limestone cave operator and a small men's clothing store) "grew" collectively by 852,000 jobs in the file, whereas, in reality, they grew by only a few jobs (confirmed by telephone). This false growth is accepted as being legitimate, and is converted into new branch plants in the Brookings analysis.

The net overall effect of these assumptions has been to:

1. Understate small-business formations by 1.2 million jobs
2. Overstate small-business deaths by as much as 810,000 jobs
3. Overstate large-business new branch plant formations by 1.9 million jobs

When account is taken of these distortions, the small business share of job creation is about 70 percent.

This revised estimate is consistent with virtually every other known attempt to study small business job creation by following the histories of individual businesses, including a major study of the California economy by Michael Tietz and similar analyses in Canada, England, Holland, and Japan; it is also consistent with our own analysis of an earlier period (1969-76) in which the interval was much larger and the D&B file manipulations much less extreme. Brookings stands alone in its estimates of the unique role played by small businesses in generating jobs.

"Expensing" and the Enterprise Zone - The British Model

by Stuart Butler

It is clear that an amendment to the enterprise zone proposal, to allow for some form of expensing, has strong support among the small business community, which has argued that the existing tax provisions in the Administration's bill will do little to stimulate the formation of new, small firms in depressed areas because they do not usually have the tax liability necessary to utilize tax credits. It is equally clear that the Treasury Department is concerned that an expensing provision may invite considerable tax losses and loopholes.

What is often not realized is that the mechanism suggested is not a totally new and untested idea. It is based on an experimental expensing program available in Britain. Many of the concerns expressed by the Treasury have been dealt with in Britain, and officials in London have informed me that there is little evidence of major abuses.

Provided below is an outline of the British program, and a summary of comments on the experience so far. More information can be obtained directly from:

Victor Baker
Department of Industry
Industrial and Commercial Policy Division (4)
123 Victoria Street
London SWI   Tel: (London) 212-0197

The British Model

The program (entitled the Business Start-Up Scheme) commenced in the 1981-1982 tax year (ending April 1982). The incentives are available to eligible businesses and investors located anywhere in the United Kingdom - i.e., it is not restricted to firms in enterprise zones or other depressed areas.

The program allows individual taxpayers to deduct from their taxable income the purchase cost of new ordinary stock in a business which is less than five years old. Initially, the maximum deduction was 10,000 pounds for each of the three years. The 1982 Finance Act, however, raised the limit to 20,000 pounds.

Restrictions

(i) On the investor:

The minimum investment that can be made in a company is 500 pounds (to reduce monitoring costs by the tax authorities).

The investor must be an "outsider" in that his interest in the company must not exceed 30 percent. Also he must not be a paid director or an employee of the firm. The latter restriction is to prevent a company increasing remuneration to an employee (which would be a deductible business cost) and then the employee giving back the increase to the firm under the program - leaving the employee unaffected but reducing the firm's tax bill.

Although the taxpayer claims the full tax relief in the year of the investment, he has to repay part or all of the relief if he sells the shares within five years.

(ii) On the company:

The company must not control, or be controlled by, another company. It must be less than five years old, and be conducting a "new" trade (i.e., not a new company taking over an existing business that is more than five years old). This is mainly to prevent existing firms reincorporating to take advantage of the program. In addition, the firm must not be conducting an "excluded" trade (i.e., broadly not dealing in property, commodities, leasing or other financial activities).

There is no restriction on the amount of investment capital a firm can receive under the program, nor on the size of the firm (i.e., it is aimed at all start-up firms, not just small firms).

Observations of British Officials

British tax officials do not expect detailed figures on the program to be available until later this year. Nevertheless, they say that the indications so far on the operation of the program are gratifying. In particular, the tax loss seems to be small (although it is a nationwide program) and no major abuses or loopholes are evident - reasons for the doubling of allowable deduction this year.

Some clear trends and results are evident:

1) A number of brokering funds have appeared. These funds pool investments and channel them to eligible firms. Officials note that these funds (like most banks and other major financial institutions) tend to invest in medium-sized companies, not small firms. The absence of any limit on the size of eligible firms encourages funds to place investments in larger companies, where the risk and transactions costs are likely to be lower. Until complete data is available, officials are unable to assess the impact of direct transactions between individual investors and firms (likely to be more common with small firms).

2) The limitation of the program to equity capital has been criticized by small companies, who often wish to retain complete ownership. Officials concede that widening the program to cover debt capital would have benefitted the small entrepreneur.

3) The restrictions have been criticized as excessive, leading to a lower utilization of the program than some had expected. Much criticism has focused on the rule precluding employees taking the deduction, since this discourages employee stock ownership schemes. Officials are looking for ways around this without opening a loophole. The loophole would only exist, of course, if the firm had a corporate tax liability. Few new, small, inner city firms pay much tax and so revenue losses might remain low in an enterprise zone, even if the restrictions were lifted.

4) Several British financial organizations have suggested that the program should be targeted more to distressed urban areas. If this were done, officials believe, fewer restrictions would be needed because investors would be confronted by higher risks, which would offset the attractiveness of the deduction.

Senator **Quayle**. Thank you, Mr. Butler.

Mr. Germanis.

Mr. **Germanis**. Thank you.

I also have a full statement that I would like entered for the record.

Senator **Quayle**. It will be.

Mr. **Germanis**. My name is Peter Germanis. I am a policy analyst in economics at the Heritage Foundation, and I would like to discuss some alternatives to Government job creation programs.

Dr. McKenzie will discuss some of the problems that we have with the job creation programs.

Clearly, the most effective way of reducing the unemployment rate is to stimulate economic growth.

Even if the economy does pick up, however, further steps may be needed to address some of the structural problems in today's labor market. One group needing special attention today is the unemployed under the age of 25 who, because of their limited skills and job experience, may have a difficult time finding employment even during periods of rapid economic growth.

As I see it, there are three important steps the Government can take to improve the employment prospects of today's hard-to-employ youth.

Congress and the President have already taken the first step by passing the Job Training Partnership Act. The creation of a concrete training program, with about half of the resources going to economically disadvantaged youth, should do much to prepare its participants for jobs in the labor market, rather than acting as a temporary income maintenance scheme, as has been the case too often in the past. In particular, the increased participation of the private sector should greatly enhance the program's chances for success.

Although the Job Training Partnership Act is a dramatic improvement over many past employment and training initiatives, its success may be overshadowed by our decaying educational system. The Carnegie Council of Policy Studies recently reported that "because of deficits in our public school system, about one-third of our youth are ill-educated, ill-employed, and ill-equipped to make their way in American society." Thus, if we are ever to achieve full employment, we must first address the problems of our educational system.

The Nation's education policy should be designed to stress not only improvements in mathematics and science, to meet the projected demands for a high tech society, but also on some basics: Reading, writing, and the development of a positive work attitude. Given the poor performance of the public school system in achieving these goals and the tremendous importance of "human capital" development, I believe that it is now time to begin thinking more seriously about alternatives, such as tuition tax credits or a voucher system.

As a third step, the Government should reevaluate some of its own policies, which directly restrict employment opportunities. The minimum wage, for example, is just one policy that is responsible for the high level of unemployment among our teenagers today . It has restricted the employment opportunities of our least productive workers by pricing their services out of the market. This is particularly true for teenagers. By raising the wages the employer must pay an employee, the minimum wage, in addition to its adverse effects on employment, may lead employers to reduce other, nonmonetary rewards for work, such as fringe benefits and training programs. This reduction in training, for both the employed and the unemployed, may lead to problems of underemployment and unemployment in the future. Establishing a "subminimum" wage rate for teenagers would limit the harmful effects of the minimum wage on youth unemployment because this wage differential would create financial incentives for firms to hire and train young, unskilled workers.

Similarly, labor market regulations in the form of Davis-Bacon and occupational licensing restrictions should be reviewed. These laws and regulations have effects similar to those of the minimum wage, but fall predominantly on the adult labor market.

Structural changes in the economy have also placed many "mainstream" workers in the unemployment lines. It is now clear that many workers in various industries who have previously experienced stable work histories, high skill levels, and high wages are now permanently "displaced."

Past programs that were designed to deal with the plight of the displaced worker have proven to be costly and relatively ineffective. The trade adjustment assistance program is one example. Because it provided extremely generous unemployment benefits, few unemployed workers took advantage of the program's training and relocation provisions. By placing too much emphasis on assistance, it actually may have delayed the adjustment process in declining firms and industries.

I think the Government's involvement in the market generally tends to be counterproductive. However, if the Federal Government is to have a role, then it should be in providing opportunities by investing in the human capital of those unemployed who are unable to finance such training themselves. It should not get involved in the name of creating or saving jobs because of the self-defeating nature of such policies.

[The prepared statement of Mr. Germanis follows:]

PREPARED STATEMENT OF PETER GERMANIS, POLICY ANALYST, THE HERITAGE FOUNDATION

My name is Peter Germanis. I am a policy analyst in economics at The Heritage Foundation, and I would like to discuss some alternatives to government job creation programs.

The federal government has a long history in employment and training activities. During the Depression years of the thirties, it established massive public works and public service employment programs to assist millions of the unemployed. In the following decade, the Employment Act of 1946 explicitly committed the federal government to the goal of full employment, defining the federal role as one to promote "maximum employment and purchasing power."

Unfortunately, years of federal involvement and billions of dollars spent on employment and training programs have not noticeably affected chronic unemployment. These programs have tended to be costly per job created, poorly timed with the business cycle, and have frequently not prepared their participants for existing employment opportunities in the private sector. The recently passed gasoline tax is just another example of a misguided effort to create jobs. The net result will merely be a redistribution of unemployment from one sector of the economy to another, and in the process, it may actually raise total unemployment. Moreover, even if such jobs programs could produce the employment they promise, it is unlikely that they would do more than make a dent in our unemployment rate.

With 12 million people out of work, our unemployment problems cannot be resolved without fiscal and monetary policies that are conducive to long-term economic growth. Perhaps the most important step that could be taken to achieve this growth, is to speed up the tax cut scheduled for July 1st and make it retroactive to the first of this month. Whether one is a supply-sider or a Keynesian, this prescription should have appeal. For supply-siders, the lower marginal tax rates would encourage work, saving, and investment. For Keynesians, accelerating the tax cut would add more to the paychecks of consumers, which would stimulate consumer demand for goods and services, thereby creating real jobs.

Even if the economy does pick up, however, further steps may be needed to address some of the structural problems in today's labor market. One group needing special attention today is the unemployed under the age of 25 who, because of their limited skills and job experience, may have a difficult time finding employment even during periods of rapid economic growth.

As I see it, there are three important steps the government can take to improve the employment prospects of today's hard-to-employ youth.

Congress and the President have already taken the first step by passing the Job Training Partnership Act. The creation of a concrete training program, with about half of the resources going to economically disadvantaged youth, should do much to prepare its participants for jobs in the labor market, rather than acting as a temporary income maintenance scheme, as has been the case too often in the past. In particular, the increased participation of the private sector should greatly enhance the program's chances for success.

Although the Job Training Partnership Act is a dramatic improvement over many past employment and training initiatives, its success may be overshadowed by our decaying educational system. The Carnegie Council of Policy Studies recently reported that "because of deficits in our public school system, about one-third of our youth are ill-educated, ill-employed and ill-equipped to make their way in American society." Thus, if we are ever to achieve full employment, we must first address the problems of our educational system. The nation's education policy should be designed to stress not only improvements in mathematics and science, to meet the projected demands for a high tech society, but also on some basics: reading, writing, and the development of a positive work attitude. Given the poor performance of the public school system in achieving these goals and the tremendous importance of "human capital" development, I believe that it is now time for the Congress to begin thinking more seriously about alternatives, such as tuition tax credits or a voucher system. The added competition would be good for the public schools as well as an important step forward in preparing today's primary and secondary students for the job market of the future.

As a third step, the government should reevaluate some of its own policies, which directly restrict the employment opportunities of the unemployed. The minimum wage, for example, is just one policy that is responsible for the high level of unemployment among our teenagers today. It has restricted the employment opportunities of our least productive workers by pricing their services out of the market. By raising the wages an employer must pay an employee, the minimum wage, in addition to its adverse effects on employment, may lead employers to reduce other, non-monetary rewards from work, such as fringe benefits and training programs. This reduction in training (for both the employed and the unemployed) may lead to problems of underemployment and unemployment in the future. Establishing a "subminimum" wage rate for teenagers would limit the harmful effects of the minimum wage on youth unemployment because this wage differential would create financial incentives for firms to hire and train young, unskilled workers.

Similarly, labor market regulations in the form of Davis-Bacon and occupational licensing restrictions should be reviewed. These laws and regulations have effects similar to those of the minimum wage, but fall predominantly on the adult labor market.

Structural changes in the economy have also placed many "mainstream" workers in the unemployment lines. It is now clear that many workers in various industries who have previously experiencedstable work histories, high skill levels, and high wages are now permanently "displaced."

Past programs that were designed to deal with the plight of the "displaced" worker have proven to be costly and relatively ineffective. The Trade Adjustment Assistance program is one example. Because it provided extremely generous unemployment benefits, few unemployed workers took advantage of the program's training and relocation provisions. Thus, placing too much emphasis on "assistance," actually may have delayed the "adjustment" process in declining firms and industries. We must also remember that unemployment compensation was originally designed to offer only temporary relief and that any extensions beyond the customary 26 weeks may merely delay the adjustment process. One possible wav of minimizing this problem could be to tie a work or training requirement as a condition for receiving any form of "extended" benefits. This would have the advantage of speeding up the adjustment process without denying assistance to those truly in need.

I think the government's involvement in the market generally tends to be counterproductive. However, if the federal government is to have a role, then it should be in providing opportunities by investing in the "human capital" of those unemployed who are unable to finance such training themselves. It should not get involved in the name of creating or saving jobs because of the self-defeating nature of such policies.

The Heritage Foundation Backgrounder

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UNEMPLOYMENT: WHAT'S TO BLAME?

INTRODUCTION

Unemployment in September mounted to 10.1 percent, the highest level since 1941. The fundamental reason for this surge in unemployment is the economy's lack of growth. With over 11 million jobless workers, many Americans are tempted to look to the government for solutions. Yet, it is precisely because of the legacy of decades of government intervention in the marketplace that the U.S. suffers from its current economic malaise. Though occasional "market failure" may justify selective and occasional government action, most of the economic problems experienced in recent years are the result of "government failure."

A healthy and growing economy is a prerequisite for creating jobs for the jobless and raising the standard of living for all. In an attempt to reach full employment, postwar economic policy sought to generate an adequate level of demand for goods and services, and fiscal and monetary instruments were adopted toward these ends. But these measures largely ignored the incentives and other factors that would have set the economy running at full employment. U.S. policies led instead to serious inflation, and, postwar history suggests, contributed to the unemployment problem.

Governments at all levels have aggravated the situation by adopting laws and regulations that impede the free operation of market forces. Because this diminishes the ability of the economy to adjust quickly to changing conditions, it increases what is known as frictional unemployment. These government imposed restraints also have slowed the growth of job-creating sectors. The minimum wage laws and occupational licensing restrictions, for example, are particularly damaging because they tend to restrict employment opportunities for the nation's most

Note: Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

disadvantaged. Ironically, efforts to ameliorate the economic hardship of joblessness through unemployment compensation and other programs appear to have increased unemployment by reducing incentives to find permanent private sector jobs.

If the federal government genuinely wants to reduce unemployment, it should go to the root of the problem: government itself. The evidence clearly shows that much of today's unemployment is a product of government programs, restrictions, and other barriers that inhibit job creation. It would be far better to terminate these than to suffer through even heavier doses of ineffective government intervention.

The Unemployment Rate as a Signal

The unemployment rate measures the proportion of the labor force that is not working but is available for and actively seeking work. Among other things, it serves as a barometer of general economic conditions and as a benchmark for future policy decisions. The current 10.1 percent unemployment rate has attracted much concern because it is the highest level experienced in the postwar era. But, although the present unemployment level is clearly a signal of widespread economic problems, it is misleading to compare today's unemployment rate with those of earlier years.

Many factors affect the level of unemployment. Even in a dynamic economy, some level of unemployment is normal, and actually desirable, because it means resources are shifting to meet the changing needs of the economy. Some workers are voluntarily between jobs, others are new entrants to the labor force, while yet others are temporarily laid off due to seasonal factors, such as bad weather in the construction industry. Thus, the measured rate of unemployment will always be greater than zero, even in a healthy economy.

A number of other factors further account for today's unemployment rate. For example, labor force size and composition have undergone considerable change since the 1950s. Women and youth make up a larger share of the labor force today than they did in earlier years. These groups tend to experience higher rates of unemployment than do adult males because they generally have less training and experience. When the number of women and youth increases as a proportion of the labor force, the unemployment rate will generally rise. Similarly, the liberalization of unemployment compensation as well as the growth in multi-earner families have contributed to an increase in the unemployment rate because these factors allow the unemployed to be more selective in looking for work.

Moreover, the expansion of unemployment compensation may actually discourage working. In addition, welfare programs such as Aid to Families with Dependent Children and Food Stamps have grown rapidly and accompanying rules have increasingly required beneficiaries to register for work as a prerequisite for aid.

Thus, many who otherwise would not have been counted as part of the labor force are now included as part of the unemployed, even if they have no real intention of working were a job to become available.

Some factors, of course, may lead to an understatement of unemployment. For example, there are a number of people working part time because full-time positions are not available for them, and others may simply have become so discouraged that they do not even seek work--and so do not appear in the statistics. The combined effect of these factors is difficult to measure, but an awareness of their existence is important to understanding the unemployment problem.

Because of the difficulties in measuring unemployment, some economists have suggested that a better barometer of the economic climate would be the employment rate that measures the proportion of the total employed adult population. This could give a different picture of the state of the economy than does the unemployment rate. For example, despite a September unemployment rate of 10.1 percent, some 57 percent of the total adult population had jobs. By contrast, in 1969 when the unemployment rate was a tiny 3.5 percent, only 56.5 percent of the adult population was employed.

The unemployment rate in and of itself may be a misleading indicator of economic hardship. In fact, recent Department of Labor surveys indicate that the average annual family income of an unemployed person exceeds $19,000. Many of the unemployed collect unemployment compensation, have spouses who work, and own their own homes. This is not to say that segments of the unemployed do not suffer serious problems; it does indicate that they may not be as bad off as the unemployed of a decade or more ago, to say nothing of the 1930s when the image of unemployed suffering was fixed in the public's mind.

ECONOMIC GROWTH

Policies affecting economic growth are a *sine qua non* to any discussion of unemployment, because the more attractive the climate for economic growth, the more labor will be needed for production. Decades of irresponsible fiscal and monetary policies, however, have steadily eroded the incentives needed for sustained economic growth. These policies were largely a reflection of the views of British economist John Maynard Keynes and the assumption that central planning can make an economy run smoothly. The wide acceptance of this philosophy among policymakers led to an ever increasing role for government in the economy and inexorable increases in the tax burden borne by the private sector. Yet, private and public sector spending are not equal in their results. While government spending may stimulate the economy to some degree, it generally diverts spending and investment from more efficient, and hence productive, uses that would be made in a freely operating market economy.

How Fiscal Policy Contributes to Unemployment

According to the Keynesian doctrine, persistent unemployment is due to inadequate demand in the economy, and it thus falls to government to stimulate aggregate demand by increasing government spending or reducing taxes. The additional spending, it is argued, will stimulate the demand for goods and services and will promote greater economic activity. The promised result was reduced unemployment. Similarly, Keynesians argue that inflationary pressures result when demand exceeds economic capacity, thereby bidding up the price level. If this happens, government action is needed to restrain aggregate demand by cutting back on spending through a reduction in public spending or an increase in taxes.

In contrast to Keynesians, who emphasize demand management policies, the Reagan Administration shares the traditional view of free market economists who stress the importance of incentives to produce. These require a reduction in taxes and government spending. Government intervention, rather than maintaining full employment, disrupts the efficient allocation of resources and causes unemployment. These economists maintain that a greater reliance on market forces is needed to ensure steady economic growth, an expansion in employment, and a higher standard of living.

The centerpiece of the Reagan economic recovery program is the 25 percent cut in personal income tax rates over three years. This is not based on the Keynesian tactic of stimulating aggregate demand by reducing taxes, but on the belief that a reduction in marginal tax rates (the rate on the last dollar earned) encourages economic activity by increasing the rewards for work, saving, and investment by making activities such as leisure, consumption, and tax shelters relatively more expensive. The Administration recognizes correctly that decisions between consumption and saving and between work and leisure are heavily influenced by the after-tax return on individuals' capital and labor. Without adequate incentives, many find unemployment compensation and welfare benefits more attractive than wages, which have to be earned. Lower marginal tax rates also improve the after-tax returns on investment and induce employers to expand investment, leading in turn to increased employment.

Regrettably, the lion's share of the Reagan cuts will merely offset tax increases in the pipeline, due to inflation induced bracket creep and the social security payroll tax increases legislated during the Carter Administration. After taking into account expected inflation over the next three years, marginal tax rates will decline only to their 1977-1980 levels, still substantially higher than they were before 1975. For the marginal rate reduction to have its intended impact, Congress should insure that bracket creep stops eroding the tax cuts. The way to do this would be to index the tax code immediately, rather than waiting until 1985. Congress also should enact further tax cuts.

Spending too must be reduced. Despite all the rhetoric about massive budget cuts, spending under the Reagan Administration rose to a record 24 percent of GNP in fiscal year 1982. This is considerably higher than spending levels in earlier years, which averaged 21.5 percent over the ten-year period from 1971-1980 and just 19.5 percent in the previous decade. Although spending is projected to decline somewhat in the coming years, it is nonetheless expected to average 23 percent of GNP until 1985. This growth in government spending will put a brake on job creation in the private sector because the money needed must come from increased taxes, expanded federal borrowing, or the inflationary creation of money to cover federal deficits. Each of these drains the private sector, discouraging the expansion of existing firms and the creation of new ones.

The experiences of the Reagan Administration show just how difficult it is to cut government programs, even when the White House is determined to do so. A major reason for this is that the most rapidly growing components of spending in recent years are entitlement programs, such as social security, Medicare, public pensions, and a number of others over which Congress and the agencies have only limited control. From 1960 to 1981, spending on these programs grew from about 26 percent of the federal budget to 50 percent.[1] Unless these expenditures are brought under control, they may undermine the future growth of the U.S. economy.

By taxing work and subsidizing leisure, some government programs, particularly those financed by payroll taxes, compound unemployment problems. As the taxes that finance these programs continue to grow, more and more Americans may choose not to work and to enjoy more leisure. Those eligible for social security, for example, may decide to retire at an earlier age, while recipients of unemployment compensation may voluntarily prolong their joblessness. Others avoid taxes simply by moving into the underground economy--this alone may be responsible for overstating the unemployment rate by as much as two percentage points.[2] Such decisions reduce the number of workers paying taxes and increase the number or people eligible for income support. This, in turn, puts further upward pressure on taxes, aggravating economic problems. This vicious circle is pushing the tax burden to unacceptable and counterproductive levels.

Many of the "insurance" programs financed by the payroll tax, such as social security, may also inhibit job creation indirectly by lowering savings and investment. A number of these programs are financed on a pay-as-you-go basis: the taxes paid by current workers are not saved and invested, but used to pay benefits to today's beneficiaries. This can lower private savings and investment because many individuals come to view their "contributions" to these programs as a form of forced savings to protect them from such contingencies as the loss of income associated with retirement, disability, and unemployment and may therefore save less of their money themselves. Because the government uses the contributions to pay current beneficiaries, there is no corresponding increase in public savings to balance the decline in private savings. By decreasing aggregate saving, these programs reduce the money available for capital formation and job creation.

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[1] The percentage of the federal budget spent on defense has actually declined since 1960, when it comprised 48 percent--compared to only 22 percent in 1981.

[2] "The Underground Economy's Hidden Force," Business Week, April 5, 1982, p.66.

Many of the welfare programs financed by general revenues create substantial work disincentives for the poor. These programs, in combination with the tax code, have fostered permanent dependency on welfare by providing benefits of greater value than the after-tax income individuals can earn by working. Notes University of Chicago economist Yale Brozen:

> Because we pay the unemployed and those living in poverty so well, we are getting a rise in the number of people living in poverty. The amount of unemployment responds to the demand for unemployment and poverty.[3]

Thus, by eroding the American work ethic, these programs have had the unintended effect of adding an increment to the unemployment rate, which was much less evident before the Great Society programs were enacted.

Monetary Policy Effects on Unemployment

In late 1979, the Federal Reserve Board under Chairman Paul Volcker, embarked on a policy of restraining inflation by slowing the growth rate in the money supply. This was a radical departure from the course followed after World War II, which aimed at controlling interest rates rather than the quantity of money. This change in approach reflected the impact of the monetarist philosophy, which holds that the key to achieving economic stability without inflation is to set a steady rate of growth in the money supply in line with the underlying growth in output.

For many years, economists had believed that economic growth and full employment could be achieved by employing an expansionary monetary policy. This view held that an acceleration in the money supply would lower interest rates, and it was thought that by reaching this "price" of money government could stimulate investment and raise output. Slowing the increase in the supply of money was believed to do the opposite by raising interest rates and discouraging investment.

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[3] Yale Brozen, "Government and the Rich", National Review, July 9, 1982, p.828.

An expansionary monetary policy, however, can only stimulate growth and reduce unemployment if people do not anticipate future inflation due to the easy money policy. In that case, businesses produce more than they otherwise would because of a perceived increase in demand and lower investment costs. These positive effects on employment and output, however, tend to be short-lived because, once workers and investors become aware of inflation, the short-term gains disappear, the stimulus evaporates, and with it the new jobs. Moreover, once current and anticipated inflation rises, interest rates are pushed beyond their original levels, and even higher, as investors begin to demand an "inflation premium" to compensate their loss of current and future purchasing power. Rather than reducing interest rates and unemployment, pre-Volcker policy drove up inflation and interest rates and weakened the economy.

Having realized that expansionary monetary policy will not bring down interest rates or stimulate the economy for any length of time, the Federal Reserve is now trying to control the rate of growth in the money supply. The overall success of this policy is reflected in the dramatic reduction in the inflation rate.

Critics of "the Fed's" policy claim that in the process of bringing down inflation it has created the current recession and the high rate of joblessness. The recession, however, is to a large degree an inevitable but short-term side effect of the transition to a noninflationary economic environment. As Milton Friedman has explained, the economy has to go through a "drying out" period after an overdose of easy money. University of Virginia economist Herbert Stein points to the inevitable dilemma implied thereby for public policy:

> A special problem exists when, as has recently been our case, we start with an inflation rate that has been high for some time. On the one hand, the more promptly the inflation rate was reduced to a negligible level, the more certain would be the predictability of the price level. On the other hand, the more rapid the decline of the inflation rate, the more people who counted on continuation of the past inflation rate would be disappointed and hurt, with damage to the economy as a whole. There is no objective way to strike the optimum balance between the two considerations.[4]

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[4] Herbert Stein, "Problems in the Conduct of Monetary Policy," in The AEI Economist (Washington, D.C.: American Enterprise Institute for Public Policy Research, July 1982), p. 3.

Today's predicament, in other words, is largely a result of inflation coming down faster than anyone had anticipated. Many workers, investors, and employers had anticipated a higher rate of inflation and contracted for wage rates and loans on that basis. So businesses are now forced to adapt to softer than expected output prices by shedding labor and cutting other costs. Once people's decisions and expectations adjust to low inflation, the economy will grow in a healthy manner, rather than in the distressed way that characterized the era of high inflation. The current recession represents the painful withdrawal symptoms associated with the drying out stage during the recovery from inflation. It is difficult for government to hold firm during this stage, but it is the only way if the U.S. is to spare its economy the ravages of inflation.

The short-term dislocation has not been helped by the Fed's erratic control of the money supply. In the past, slower growth in the money supply has tended to lower economic activity and raise unemployment within about two quarters. But within the eighth quarter, such monetary restraint has usually lowered inflation and set the framework for a healthy recovery. The current yo-yo changes in the money supply, however, have increased uncertainty for lenders regarding the value of future interest and principal payments. This has caused them to demand a risk premium in interest rates (on top of the inflation premium) to compensate for the risk of capital losses, should the price level rise. Uncertainty of this kind tends to destabilize business investment and capital plans and is a major cause of the recent record high real interest rates. Milton Friedman warns, "Until it [the Fed] mends its ways and produces stability in monetary growth, we shall not, I fear, achieve greater stability in either interest rates or economic growth."[5] The investment community has been deceived too many times in the past for it to make decisions on the basis of Fed targets. The Fed will have to earn credibility through its actions and restore public confidence that monetary policy will remain on a firm anti-inflation course. As this happens, interest rates will fall, generating economic growth and providing jobs for the unemployed. In the meantime, policymakers must not give in to critics pressing for looser control of the money supply.[6] To do so would repeat mistakes of the past, further erode confidence in the Fed, and obtain short-term economic relief at the cost of substantial long-term damage.

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[5] Milton Friedman, "The Federal Reserve and Monetary Instability," The Wall Street Journal, February 1, 1982.

[6] Supporters of Senator Byrd's (D-W Va.) proposed Balanced Monetary Policy Act of 1982, for example, suggest a return to the policy of controlling interest rates. Similarly, Representative Jack Kemp (R-N.Y.) and other supply-siders have suggested that the Federal Reserve should, among other things, target real interest rates.

GOVERNMENT AND THE LABOR MARKET

While it is clear that government monetary and fiscal policies affecting economic growth play a critical role in establishing the climate for job creation, government regulatory policies that influence employment and income decisions in the labor market are also of crucial importance. Many laws and regulations in this area have contributed to unemployment by raising the cost to employers of hiring labor, inducing a shift to other factors of production, and restricting entry into an occupation. Other policies, such as the various unemployment compensation programs, have tended to prolong the duration and frequency of joblessness by reducing the cost of being unemployed. Although these policies may be designed to meet a social objective, they tend to work at cross-purposes with other government goals, most notably full employment. Moreover, they impose enormous costs on consumers, businesses, and workers, while benefiting few.

The Minimum Wage

The federal minimum wage was passed by Congress in 1928 as part of the Fair Labor Standards Act and was initially set at 25 cents an hour for a limited segment of the workforce. Since that time, both the level of the legislated minimum (in inflation adjusted terms) and the percentage of workers covered have roughly doubled. The original purpose of the minimum wage was to alleviate poverty by insuring an adequate standard of living for all workers. Not only has it failed to achieve its stated objective, but it has impoverished a large segment of the population by exacerbating unemployment and inhibiting the skill development of the nation's most disadvantaged citizens.[7]

The minimum wage creates unemployment by setting the wage rate at a level above that which would have been reached through the operation of market forces. This restricts employment opportunities for the least productive workers by pricing their services out of the market. By altering relative prices, employers who might have hired workers at lower wages may now substitute other inputs such as capital and more skilled labor, thereby distorting the efficient allocation of resources. Increased production costs put pressure on prices, thereby reducing sales and creating more unemployment.[8]

Even workers who retain their jobs at the minimum wage, however, may find that they are worse off than before because, although they have a higher money wage, other nonmonetary forms of compensation such as fringe benefits and on-the-job training have been reduced. Employers are willing to supply such benefits because workers in fact pay for them with lower wages. Similarly, many employees are willing to accept a low wage initially, in return for training, because such an investment in "human capital" may enable them to command greater earnings in the future. Thus, the minimum wage may lower the future earnings potential for many workers by reducing their training opportunities. This contributes to the unemployment problem by curtailing opportunities for the skill development necessary to compete in a dynamic economy.

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[7] See Walter Williams, "Government Sanctioned Restraints That Reduce Economic Opportunities for Minorities," Policy Review, Fall 1977, pp. 7-30; and Peter Germanis, "The Minimum Wage: Restricting Jobs for Youth," Heritage Foundation Backgrounder No. 147, July 1, 1981.

[8] See Finis Welch, Minimum Wages: Issues and Evidence (Washington, D.C.: American Enterprise Institute, 1978).

Many economists, notably the newly named Nobel Prize winner, George Stigler, have called attention to the deficiencies of the minimum wage. And Ronald Reagan, while campaigning for election, declared: "The minimum wage has caused more misery and unemployment than anything since the Great Depression." This observation is poignantly true regarding teenagers and minorities, whose lack of skills and education precludes their obtaining employment even at the minimum wage. A proposal that would limit the harmful consequences of the minimum wage would be the creation of a special youth wage rate, below the adult minimum, which would create financial incentives for employers to hire young, unskilled workers.[9] Because the minimum wage affects not only the youth labor market but also young adults, the less educated, the elderly, and other groups, a strong argument could be made for abolishing the minimum wage altogether.

The Role of Unions

Unions impose costs on society similar to those created by the minimum wage. Through collective bargaining agreements, unions also can push wage rates above levels at which employers can afford to hire more workers. When the economy turns down, these bloated contract agreements mean more layoffs than necessary. The ability of unions to win such agreements reflects the monopoly power in the bargaining process that government has granted them. Union gains, however, come at the expense of others, primarily those unable to obtain employment in the unionized sector at the higher wage rate.

The Davis-Bacon Act

The Davis-Bacon Act and other prevailing wage laws are yet another form of wage regulation leading to unemployment.[10] Passed by Congress in 1931, Davis-Bacon requires contractors on federally funded construction projects to pay the "prevailing" wage, meaning generally the wage paid to at least 30 percent of similarly employed workers in a locality. The original purpose of the Act was to protect local labor from the competition of new or intinerant contractors and their lower paid employees.

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[9] Last year, Senator Orrin Hatch (R-Utah), Chairman of the Senate Labor and Human Resources Committee, introduced the Youth Opportunity Wage Act of 1981 (S. 348), which would encourage youth employment by providing a lower minimum wage for teenage workers. Unfortunately, Senator Hatch and other Congressmen who have introduced similar legislation have bowed under pressure and have not actively pursued passage of their bills.

[10] There are a number of other prevailing wage laws such as the Walsh-Healy Act and the O'Hara-McNamara Services Act. Their implications for employ-

Since union members are more likely to be paid an identical wage rate, the so-called 30 percent rule often leads to the use of the higher union wage scales in federal projects, rather than the average construction wage. By artificially inflating wage levels, Davis-Bacon distorts the labor market and leads to higher levels of unemployment in the construction industry. These artificially high wage rates impose a discriminatory bias against the employment of nonunion labor because such workers may not be productive enough to retain their jobs at the new wage. As is the case with the minimum wage, this denies many of the poor and unskilled the opportunity to gain entry-level experience and on-the-job training. In addition, the Act restricts the proportion of apprentices and lower skilled workers who can work alongside journeymen--again reducing the employment opportunities for young people.

The Administration issued revised Davis-Bacon regulations addressing some of the problems with the Act and significantly reducing construction costs to the government. A federal judge, however, blocked the Labor Department from putting these new changes into effect. The future of these regulatory reforms is still in doubt. Alternative approaches to the problem include legislative changes to repeal the Act and exemptions for certain types of construction, such as military projects and low-income housing. Adopting either measure would promote employment in the construction industry, in addition to reducing the burden on the taxpayer.

Occupational Licensing

The minimum wage and Davis-Bacon Act create unemployment by artificially raising wages. Equally pernicious are government sanctioned restraints that limit the number of people who can enter a field of work by occupational licensing laws and certification requirements. These restrictions have been defended as a way of protecting the consumer from incompetent and dishonest service. Yet, all too often, this is a smoke screen for the creation of self-interest barriers designed to reduce entry into the occupation. The result is higher wages for those lucky enough to gain entry to the profession, but fewer total jobs.

Some level of certification and competency assessment may be needed in occupations, such as the health care professions, where the safety and well-being of the consumer are involved. In most cases, however, the free market can adequately serve the community's interests with less restrictive requirements. The taxicab business is a common example of the adverse effects associated with policies that limit entry into an industry.[11] To operate a cab, the skill requirements are relatively low and the initial capital costs are minimal. Yet, in New York and many other cities, a taxi driver is required to own a "medallion" to provide cab service. In New York City, the supply of these medallions is fixed, and they can be purchased only from other operators at a going price of anywhere between $50,000 and $60,000. Thus, it is not surprising that there are fewer cabs (and hence cab driver jobs) per person in New York City than elsewhere in the country where the restrictions are not nearly as costly. In Washington, D.C., for example, there are no limits on entry. Not only does the city have one of the highest ratios of cabs anywhere in the country, but almost all drivers are from minority groups, who are usually hurt the most by professional regulations. Rather than protecting the consumer, in other words, licensing requirements frequently do nothing more than restrict entry to occupations and allow the fortunate few to earn monopoly profits for their services.

Unemployment Compensation

The unemployment insurance (UI) system was created over four decades ago to provide temporary income support for the unemployed. The program is financed by a payroll tax of 3.4 percent to be paid by employers on the first $6,000 of wages. It is possible for employers, however, to pay as little as 0.7 percent of taxable payroll because federal law allows them to receive a credit for contributions made to a state UI fund. Tax rates for employers vary substantially, due to a process known as "experience rating," which ties a firm's contributions to its previous unemployment experience. Firms with stable employment patterns pay a lower tax rate than firms with a history of frequent layoffs.

Though designed to ameliorate the hardships associated with unemployment, the UI system is responsible for creating some unemployment because it reduces the cost of being unemployed. There are basically three ways in which the UI system can increase either the frequency or duration of unemployment. First, because unemployment benefits often compare quite well with a worker's after-tax earnings, they reduce the incentive for an unemployed worker to return to work if a job becomes available.[12] A General Accounting Office study found that unemployment compensation replaced, on average, about 64 percent of a worker's pre-unemployment take-home pay.[13] If work related expenses such as transportation and child care are included, the rate of income loss from unemployment is very low for many workers. This is particularly important during a recession when job opportunities dwindle and pay levels fall. In these circumstances, the differential between unemployment insurance and take-home pay narrows yet further. In general, the larger the benefits are in relation to a worker's previous after-tax income, the more likely he is to remain unemployed waiting to be rehired, rather than search actively for a new job.

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[11] See Williams, op. cit., pp. 26-28; and "New York City Looks at Taxi Regulation," Regulation, March/April 1982, pp. 11-13 and 36.

[12] For a more extensive discussion of the work disincentives inherent in the UI system, see Martin Feldstein, "Unemployment Compensation: Adverse Incentives and Distributional Anomalies," National Tax Journal, Vol. 27, No. 2 (June 1974), pp. 231-244.

[13] U.S. General Accounting Office Report, "Unemployment Insurance--Inequities and Work Disincentives in the Current System"(HRD-79-79, August 28, 1979), p.7.

Unemployment compensation may also prolong unemployment spells by providing jobless workers with the means to extend their job search. This is helpful, in the sense that it allows people to take more care in choosing work, but it has the statistical result that unemployment figures are boosted. In a review of fourteen studies estimating the effect of UI on job search, economists Dan Heldman, James Bennett, and Manuel Johnson found that the empirical evidence supports the hypothesis that job search is extended by the availability of unemployment benefits, possibly by as much as 1.6 weeks.[14] This may not seem a significant extension, but these economists estimate the annual costs of this prolonged unemployment due to UI, in terms of foregone output and additional benefits, to be at least $2.2 billion.

Finally, unemployment compensation may make layoffs more attractive for an employer during an economic downturn.[15] This is so because the tax used to finance the UI system is not always directly related to the unemployment experience of the firm. An employer with an especially poor record of employee layoffs that is already facing the maximum tax rate may face no incremental cost for laying off an additional worker. This gives some firms little incentive to stabilize their employment patterns.

While it is only humane for society to assist the unemployed during hard times, there is little doubt that the UI system raises the unemployment rate. There are two steps the government could take to counter the negative effects of the program. First, it could subject all unemployment benefits to taxation. This would reduce some of the work disincentives of the program. Currently unemployment compensation under most government programs is already treated as taxable income for single taxpayers with incomes above $20,000 and couples with incomes above $25,000. Subjecting all income from UI to taxation would put them on the same footing as privately financed unemployment benefits, which have always been regarded as fully taxable. The resulting tax revenues could be channeled back into the UI fund and thereby preclude future tax rate and wage base increases.

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[14] Dan C. Heldman, James T. Bennett, and Manuel H. Johnson, Deregulating Labor Relations (Dallas, Texas: The Fisher Institute, 1981), p. 101.

[15] See Martin Feldstein, "Temporary Layoffs in the Theory of Unemployment," Journal of Political Economy (October 1967), pp. 937-957.

A second measure to improve the UI system would be to improve experience rating by tying the tax rate an employer pays more closely to his actual employment experience. This could be done by lowering the minimum tax rate and raising the maximum. This would reduce much of the current cross-subsidization between firms and also remove some of the financial incentives for firms to lay off workers when demand falls off.[16]

CONCLUSION

America's unemployment problems are serious, but far from incurable. The key to restoring economic growth and job creation is to free the market from government intervention. Given the federal government's poor performance in managing the economy, its continued involvement in this area is questionable. As President Reagan observed: "The people have not created this disaster in our economy, the federal government has. It has outspent, overestimated, and overregulated." More of the same clearly is not what the U.S. economy needs.

Regrettably, the long-term health of the economy may be in jeopardy, because the recent double-digit unemployment rate will test the nerve of the American people. Many will find the short-term fix of a free-spending federal government very appealing. But that would be folly. It would lead the country back toward high inflation, high taxes, and low growth at precisely the time when the stock-market, interest rates, and other indicators show that firm policies are beginning to bear results.

President Reagan's original economic package of reduced federal spending and tax cuts was a step in the right direction. But it was a small step. For the strategy to work, these spending cuts and marginal tax rate reductions need to be pursued much more vigorously. Tax and spending increases are not the solution, they are part of the problem. Only when the tax burden is reduced will the private sector be willing and able to expand production and employment.

Similarly, government distortion and dislocation of the labor market must be eliminated. Reducing regulatory barriers and encouraging freer entry into the labor market would reduce unemployment and stimulate competition, benefiting both consumer and worker through lower priced and better quality goods and services. Rather than instituting a make-work public jobs program, as it has in the past, Congress could set in motion its most successful jobs program ever--simply by repealing many of the laws, regulations, and policies that have unnecessarily restricted the ability and incentives for private sector job creation.

Peter G. Germanis
Schultz Fellow

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[16] Congress recently took some steps in the right direction by lowering the income thresholds for taxation to $12,000 for single taxpayers and $18,000 for couples, but this was to finance a new supplemental unemployment benefits program. This action may reduce some work disincentives while raising others. In addition, experience rating was improved somewhat.

Senator QUAYLE. Thank you.

Now, Mr. McKenzie?

Mr. MCKENZIE. I am Richard McKenzie, and I am a professor of economics at Clemson University, with previous research ties to the Heritage Foundation.

My research over the recent years has been focused on plant-closings and proposed plant-closing restrictions. I am here to reemphasize a point in shortened version that Dr. Butler has made. Although I wish I could argue to the contrary, one of the most pervasive and potentially destructive modern economic myths is that Government can, on balance, create lasting or even temporary employment opportunities with appropriately funded legislation. This ill-conceived view of Government's capabilities is founded on the simple failure of well-intended people to recognize that all Government programs must be funded. This means the general public and our political leaders have failed to realize that while Government expenditures may give rise to jobs, the dollars for those expenditures must be drawn from other uses—other job-creating uses. Nevertheless, so-called jobs bills have an inherent political attractiveness that emerges from the visibility of the jobs created under Government programs and the invisibility of the jobs destroyed because of the funding requirements.

Without question, there is a legitimate debate that must be joined over whether we should produce more and better consumers goods, for example, televisions, or more and improved public goods, such as roads. In addition, Congress should be concerned with whether the taxes it collects should go for MX missiles or interstate highways and bridges. However, this question of how funds should be spent is largely separate and distinct from the issue of the jobs creation potential of any particular piece of legislation.

Discussions of jobs legislation continues to be one sided. Proponents continue to place before Congress expenditure bills of $5, $6, and even $10 billion, and we have heard $1 trillion this morning, divide the proposed amount by the cost of hiring workers, and purvey the resulting employment figures as the jobs-creation potential of their bills.

We saw the gas tax bill discussions.

Little attention continues to be paid to the fact that Government programs must be financed in one or all of four ways: One, by drawing down expenditures in other Government programs; two, by raising taxes; three, by increasing Government deficits; or four, by printing money.

If increases in Government expenditures increase employment opportunities, as job-creation proponents argue, then reductions in expenditures in other sectors of the economy must decrease employment opportunities. Drawing down expenditures in other Government programs to finance jobs programs simply shifts Government employment among public purposes.

Raising taxes shifts employment demand from the private to the public sector. Increasing the Government deficits shifts employment demand from the investment goods industries to the jobs programs. And printing money is inflationary and reimposes the burdens of inflation that we have experienced in recent years.

The remaining part of my testimony is an attempt to point out that many of our difficulties today stem from the instability of Government fiscal, monetary, and regulatory policy. These sort of job-creation programs that are being tendered do nothing to reduce the instability of Government policy. If you want this economy to recover, it would appear to me that Congress would encourage the Federal Reserve to get a grip on the money supply, to stop causing it to range from increases of 20 percent and decreases of 10 percent or more. And perhaps the Congress should consider instituting brakes on the shifts in the budgetary dollars that are going from social programs to defense.

Again, there is a legitimate debate as to whether or not we should encourage social programs or defense programs, but it seems to me that Congress must recognize that every time it starts shifting dollars, it causes adjustments in the economy and the result is unemployment to masses in the country.

Thank you.

[The prepared statement of Mr. McKenzie follows:]

U. S. SENATE SUBCOMITTEE ON EMPLOYMENT AND PRODUCTIVITY HEARINGS ON JOBS BILLS

Testimony of

Richard B. McKenzie

Visiting Senior Fellow
The Heritage Foundation

Professor of Economics
Clemson University

My name is Richard McKenzie, and I am a Professor of Economics at Clemson University in South Carolina and have been for the past nine months a Visiting Senior Fellow in Economics at the Washington-based Heritage Foundation. My research over the past several years has been focused on plant closings and proposed plant closing restrictions and on a variety of public finance issues. I am here to argue that efforts by the federal government to create jobs will be unproductive, if not counter-productive.

One of the most pervasive and potentially destructive modern economic myths is that government can, on balance, create lasting or even temporary employment opportunities with appropriately funded legislation. This ill-conceived view of government's capabilities is founded on the simple failure of well-intended people to recognize that all government programs must be funded. This means the general public and our political leaders have failed to realize that while government expenditures may give rise to jobs, the dollars for those expenditures must be drawn from other uses -- other job-creating expenditures. Nevertheless, so-called "jobs bills" have an inherent political attractiveness that emerges from the visibility of the jobs "created" under government programs and the invisibility of the jobs "destroyed" because of the funding requirements.

The recent public debate over the nickle increase in the federal gasoline tax vividly illustrates the problem of treating even-handedly the favorable and adverse consequences of government jobs programs. Reports on the gas tax legislation repeatedly mentioned that the program would generate annual expenditures on highway construction and repairs in excess of $5 billion and would give rise to 320,000 highway jobs. [See the Greenville (South Carolina) News report on the President's signing of the gas tax bill (January 7, 1982; p. A1)]. Because the nickle tax may seem like a small amount (to be taken from so many people scattered across the country), because people tend to be relatively unresponsive to changes in the price of gasoline, and because there are only very crude means of calculating the loss of jobs in the economy due to contracted consumer expenditures on automotive and other products, most reports on the legislation necessarily gave many people the distorted impression that approximately 320,000 jobs would result from the legislation.

Most reports have only recently begun to give attention to the fact that the extra nickles appended to price of each gallon of gas also add to more than $5 billion annually and that this $5 billion will necessarily reduce private sector expenditures. These reports consistently fail to mention that the additional tax drives a wedge between the price paid by consumers and the after-tax price received by producers. The impact that that wedge has on the willingness of people to search for work and on the willingness of employers to provide jobs is rarely discussed. These ommissions are understandable. The subject of the effects of taxes is complicated, and news organizations have a difficult time as it is holding the attention of their readers and listeners.

Without question, there is a legitimate debate that must be joined over whether we should produce more and better consumers goods (eg., televisions) or more and improved public goods (eg., roads). In addition, Congress should be concerned with whether the taxes it collects should go for MX missles or interstate highways and bridges. However, this question of how funds should be spent is largely separate and distinct from the issue of the jobs creation potention of any particular piece of legislation.

Discussions of jobs legislation continues to be one-sided. Propoents continue to place before Congress expenditure bills of $5, $6, and even $10 billion, divide the proposed amount by the cost of hiring workers, and purvey the resulting employment figures as the jobs creation potential of their bills. Little attention continues to be paid to the fact government programs must be financed in one or all of four ways, 1) by drawing down expenditures in other government programs, 2) by raising taxes, 3) by increasing government deficits, and/or 4) by printing money.

If increases in government expenditures increase employment opportunities, then reductions in expenditures in other sectors of the economy must decrease employment opportunities. Drawing down expenditures in other government programs to finance jobs programs simply shifts government employment among public purposes. Raising taxes shifts employment demand from the private to the public sector. Increasing the government deficits shifts employment demand from the investment goods industries to the jobs programs. And printing money is inflationary and reimposes the burdens of inflation that we have experienced in recent years.

In the 1960s, we were taught by Keynesian economics that jobs could be created out of the thin air of government deficits. Jobs could be created because, through borrowing, the government would draw on otherwise idle money balances. (In technical terms, the government would increase the velocity of money.) This line of argument is held in some disrepute these days by policymakers for two principal reasons: First, there must be serious question about the government's ability to draw on truly "idle" money balances when interest rates are as high as they are. Second, the budget deficit is already expected to be in the range of $200 billion for fiscal 1983 and may reach upwards of $300 billion by fiscal 1988. If added deficits could resolve our unemployment problem, it would appear that they already would have.

Supporters of protectionist legislation and state and federal restrictions on plant closings, who stress the jobs that will be saved by their "jobs bills," fail to recognize that, if enacted, their proposals will also destroy jobs. Protection of the the steel and textile industries from foreign imports, for example, may save jobs in the steel and textile industries, but it will destroy jobs in unspecified quarters of the rest of the economy. If we deny the right of foreign companies to sell goods in our markets, we also deny foreign businesses the means of buying goods from us. Similarly, as I have argued at length elsewhere, restrictions on plant closings will, because of the costs involved, impose restrictions on plant openings [The Right to Close Down (International Institute for Economic Research, 1981)]. Again, jobs can be as surely destroyed by restrictions as they can be saved.

In my view, interest in jobs bills stems from its political attractiveness noted above and from a fundamental misassessment of the causes of our current employment problems. Again in my view, the unusually high levels of unemployment we are currently experiencing has resulted from a government-induced misalignment between wages paid workers and the prices producers can charge for their products, which has meant that many workers cannot be hired profitably by businesses. The economy will begin to recover once employees and employers have worked themselves through the economic thicket of realigning wages and prices and increasing the profitability of hiring additional workers. As reflected in wage concessions and reductions in wage increases, that realignment is now occurring.

The misalignment between wages and prices has developed from the destabilizing fiscal, monetary, and regulatory policies of the past decade. While total government expenditures have continued to climb slightly, there have been major shifts in budgeted dollars between social and defense programs. Although these changes may or may not have been needed (and my purpose is not to debate that issue), people must realize that these budget shifts have given rise to the need for major adjustments in people's employment. When a sizable number of dollars are moved within the budget, some industries and their workforces must expand while other industries and their workforces must contract. Because people are counted as unemployment when they are caught in the process of searching for and changing jobs, the adjustment process inevitably translates into a rise in unemployment.

The rate of growth in the money stock (M_1) decreased from 7.3 percent in the four quarters ending with the third quarter 1980 to 5.8 percent in the four quarters ending with the second quarter of 1982, a rather dramatic 21 percent drop in less than two years. (Between 1980 and 1981 the decline was greater, approximately 32 percent.) This downward trend has also been highly erratic. On a month to month basis, the money stock has gyrated from annual growth rates in excess of 20 percent to annual decline rates of more than 10 percent. On a quarterly basis, the basic conclusion that money growth has, by historical standards, been unstable in recent years remains valid. The result of the oscillating monetary policy has been instability in the money markets, increased risk of investing, higher real interest rates, and consequently curtailed private investment. In my view the resurgence in money growth to monthly annualized rates above 15 percent in the last quarter of 1982 threatens to fuel once again concern that monetary policy is inherently erratic and inflationary. If continued, current monetary policy will once again raise interest rates and continue the economy on the roller coaster ride of booms and busts.

On top of the changes in fiscal and monetary policy, several key industries -- notably banking, trucking, and airlines -- have gone through the economic wringer of deregulation. Relaxed regulatory control of the banking securities industries has resulted in substantial shifts in the flow of loanable funds, mainly away from housing and into commercial and government sectors. All in all, when all of the adjustments that must be made in response to changing government policies are considered, we should count ourselves fortunate that the recession in which we find ourselves is not much worse.

My reason for outlining the causes of our current economic malaise is to stress that jobs bills do nothing to solve the adjustment problems faced in the economy. Indeed, by adding to the deficit or giving rise to higher taxes, jobs bills, if enacted, will make adjustment back to a stable economy more, not less, difficult.

From my perspective, what the economy needs more than anything else is stability in government policy, mainly, monetary and fiscal policy. Congress has little leverage in the short-run over monetary policy. On the other hand, it has a great deal to say over stability of fiscal policy. For this reason, I endorse the proposal to hold government expenditures in major categories, such as defense and social security, constant in real terms over the next two to three years. While such a policy may not be the type of policy I would idealy prefer, it will cut the growth in real government expenditures from what it would probably otherwise be. It will also insure that shifts in budgeted dollars do not further destabilize a weak economy teetering on the brink of recovery. The most appropriate policy course the government can follow to create long-run job opportunities is to insure that its own policies do not continue to unsettle private economic activity.

Senator QUAYLE. Thank you very much.

Let me just ask a general question of each of you.

I do not—at least speaking for myself—believe that there is any panacea in so-called Government jobs-creation programs. I do not believe that jobs-creation programs will lead us out of this economic wilderness in which we find ourselves today. As I discussed with Dr. Rivlin, the best jobs-creation program is economic recovery. I suppose reducing the deficit by $50 billion to $150 billion over the next couple of years would be a good job-creation proposal.

Having interest rates below 10 percent would be a good job-creation proposal. But I wonder what we should do to show a care or concern, which we all have, for trying to help out the unemployed, 10 to 12 million people. You heard the mayor talk this morning about our concern for the lack of care and attention. I certainly believe that that is important from a political point of view as well as an economic point of view. I know it is important from a political point of view because sensitivity to human misery and loss of human capital is most important. From an economic point of view, I suppose that there simply has to be recognition that the Government, whether through tax policy or regulatory reform or monetary policy, is certainly interested in trying to get things on the right track.

Is there anything that the Government can do, in your opinion, in the area of job creation, that will provide a true and lasting economic recovery?

Should Government work in partnership with the private sector or, as a general proposition, do you really think it would be a hands-off attitude and let the market place work?

Mr. BUTLER. I would think the three of us sympathize with anybody in the political process having to deal with the present problem. But it would be false compassion merely to channel resources into visible jobs, where the costs of that policy are spread throughout the economy in the form of employment cutbacks. It is just as unfortunate for somebody not to be hired, or to lose their job, because their employer cannot pay increased taxes as it is to be laid off in Cleveland or a steel mill. In many ways it is a zero sum situation. We are losing jobs for every one we create by what seems to be an act of political will.

The idea of compassion must be seen in its entirety, as the total effect of Government action.

In terms of partnership and active Government involvement, I think it is very clear that there are certain changes that can be made in the regulatory system and tax system that would encourage general job creation and do so quickly. We have very clear proof in recent years of tax changes that do this and this is what the Federal Government should be doing, pursuing that process and looking at things such as job training as ways of encouraging reemployment in the economy. It should not be trying to become an employer, either directly or indirectly. It is not capable of doing it efficiently, and it does so only at tremendous cost throughout the rest of the economy.

So compassion suggests that we should be very open in looking at what the net effect of any Government action is, rather than concentrating only on the most visible aspects of it.

Mr. **McKenzie**. I would add to that that the gas tax issue is a perfect example of how this whole debate is warped. Those of us who might argue against job-creation programs are characterized as unconcerned. The argument was that the gas tax would create 320,000 jobs, but no mention was made of the fact that the nickel a gallon gas tax is going to mean that there will be higher prices, that fewer people will be employed in the industry, that people will have less income to spend in all kinds of other ways and that there will be a jobs reduction.

It seems to me, for consistency's sake, if you really want to present the issue in a proper light, go forth and say there will be 320,000 jobs in construction of roads and bridges. We want those. It is a distortion and a political hoax, however, to suggest that total jobs, the number of employment opportunities, will go up in this country because they will not and very likely they will go down, because of the tax wedge that this extra nickel imposes.

Senator **Quayle**. So you do not basically feel that there is any role of Government in the area of jobs creation?

Mr. **McKenzie**. I think the Government has a very important role to provide a stable economic environment. The problem that we confront now is that the Government has absolved itself of any responsibility to maintain stability in its own policy.

Senator **Quayle**. Do we have a stable economic environment now?

Mr. **McKenzie**. I would say no.

Senator **Quayle**. You would say no?

Mr. **McKenzie**. I would say no.

Senator **Quayle**. I would tend to agree.

Mr. **McKenzie**. All you have to do is look at the course of the rate of growth in M-1 or, for that matter, M-2 over the past couple of years, and what do you see? It is up and down. There was a decrease in the money stock in the period of 2 years of 22 percent and the decline was 32 percent between 1980 and 1981. With those types of adjustments going on, you are going to create instability in the employment market and that is going to spell unemployment. When you start shifting dollars around in the social welfare programs or start shifting them from social welfare programs to defense, you will be moving those dollars from one sector to another and there is going to be an adjustment.

When you start deregulating the banking industry to the same extent as savings and loans, you are going to rechannel loans from housing into other areas, which means that you are going to create instability.

When you start running $200 billion deficits, you will create all kinds of problems.

It seems to me when you consider all the instability in Government policies, we ought to count ourselves fortunate that the recession is not worse than it is.

Senator **Quayle**. Mr. Germanis?

Mr. **Germanis**. Part of our unemployment problem could be resolved by moving in the direction of a freer economy. In my statement, I mentioned the disemployment effects of the Davis-Bacon Act. Reviewing some of the laws and regulations of this type could add to employment opportunities. I do think the Federal Government may have a role in the training of some of the disadvantaged youth. The Jobs Training Partnership Act was a step forward because many of these youth, even with a subminimum wage, may be unable to obtain employment and with some training they would be able to find job opportunities. But I think we have too many impediments to the market forces as it stands right now.

Senator QUAYLE. Thank you all very much.

Our next panel is Ms. Judith Sheets, of the Indiana Vocational-Technical College; Mr. John Gardner, of the Southern Alleghenies Commission; and Mr. Sydney Howe of the Human Environment Center.

I will be back in 1 minute.

[Brief recess.]

Senator QUAYLE. Ms. Sheets, coordinator of assessment center and planning, I certainly enjoyed reading your testimony. I thought it was right on target. So go ahead and proceed and highlight it for us.

STATEMENTS OF JUDITH E. A. SHEETS, COORDINATOR OF ASSESSMENT CENTER AND PLANNING, INDIANA VOCATIONAL TECHNICAL COLLEGE; JOHN GARDNER, PRESIDENT, SOUTHERN ALLEGHENIES COMMISSION; AND SYDNEY HOWE, EXECUTIVE DIRECTOR, HUMAN ENVIRONMENT CENTER, A PANEL

Ms. SHEETS. As indicated, I will summarize and just briefly outline my comments and would appreciate the entire testimony being inserted in the record.

Senator QUAYLE. It will be.

Ms. SHEETS. Problems are not solved by ideas. Problems are solved by ideas that work.

We face a serious economic problem now. The country needs to look at something to get people back to work. Historically, as we examine the system, we know that there are economic considerations. I am not here to discuss the economic considerations but rather the implementation considerations.

First of all, as we have dealt with jobs creation in the past, we have had very muddied purposes. Originally, in 1933, the idea was to put people to work to stimulate the economy and that was it. Subsequent legislation got into helping the economically disadvantaged. We started talking about job experience. We started talking about the possibility of public service jobs being absorbed in the economy. Public works was even used as seed money to try to say, if we start a program, the community will need it and therefore continue it.

There were hidden purposes in that we bailed out local units of government and in many instances helped bail out agencies that were begun under the Great Society, and from the seed money such as LEAA. We tried to maintain these services because there were no funds within the community to maintain them.

As a result of the unclear purpose of make work in the past, we did not see the results that we wanted to see from our efforts.

One of the other major considerations historically is who we have targeted. If our purpose is to stimulate the economy, then we must clearly identify who it is that needs to be targeted. Unfortunately, that does not happen to be the economically disadvantaged when we are in a recession or depression economy. From this I would like to set down what I feel would be adequate planning parameters in examining the possibility of any make work program.

First of all, we must be clear who we are going to impact and why; second, the system must build from strength and not weakness; third, the system must have clearly stated purposes; fourth, the system must be project oriented; fifth, the system must not be a product of legislation by example; sixth, the system must not artificially support service systems; and, seventh, the system should contain incentives.

In developing these planning parameters, I would first like to say that as we examine the people that we have the possibility of impacting, we find they are the cyclically unemployed; these people we expect to return to the work force; the dislocated workers or newly structurally employed, those people who are out of work now because of technology, business failures, plant closings or permanent cutbacks; and the traditionally structurally unemployed, those people who tend to be unemployed even in relatively good economic times.

If our purpose is to stimulate the economy, then we must look at the first two categories, the cyclically unemployed and the dislocated worker. To look at the third category is counterproductive. We have enough experience base to know that does not stimulate the economy in the way we expect it to based on the cost factors.

The second planning parameter, building from strength, not weakness, I think is critical. This country was built on its strength and not on its weaknesses and we must return to that premise. We cannot develop a program that stigmatizes participants. We cannot artificially support service systems. These do not have to be inherent in a planning process. We must be clear cut and I would suggest, if we are talking about stimulating the economy, we keep our eye on that very purpose. The system should be project oriented as opposed to service oriented, because service oriented projects breed dependencies that we are not prepared to maintain. The project oriented public works tend to give us tangible results.

Legislation by example is dangerous at best when we do planning in that it tends to take a small example of a local community and try to translate it to the Nation. There is dilusion involved. Motivational issues are involved, all of which need to not be a part of any national planning. We must look at what is good for the entire Nation and not just what works in one locality.

I have said enough about artificially maintaining support services. They tend not to work, we are not doing the participants any good and we are not helping the communities that have these services artificially maintained when they will not be made permanent.

I would also like to see us institute some kind of incentives. Based on that, I would propose to you for your consideration a two-part program: first of all, the clear purpose is to stimulate the economy; second, it is aimed at the cyclically unemployed.

Part 1, for cyclically unemployed, would be to put them in project oriented public works programs that had a very definite structure, such things as construction, rebuilding the infrastructure, weatherization for the disadvantaged. But they must be project oriented. They should involve the cyclically unemployed who expect to be called back to the work force when the economy turns around so we do not breed dependency. These are also our more highly qualified people. In addition, it will have a lasting benefit in that we will have the tangible results that everyone will benefit from.

Part 2 is for the dislocated workers or newly structurally unemployed. This segment of our work force has already proven the capability of being a productive part of the economy. They have had little control over what has happened to them and now they need to have their skills upgraded. I would propose that this take the form of skill upgrading and retraining. But unlike previous training programs, I would suggest that we make this a merit system, in other words, compete for the training. We will make it clear we are going to train the best workers first and put them back to work. This will have a result of not stigmatizing anyone who will participate and we will be building from a premise of strength, not weakness.

In conclusion, I know there are economic considerations that have not been dealt with but in addition to the economic considerations, we simply must look at the implementation or we have not done our full jobs because problems are not solved by ideas. Problems are solved by ideas that work.

[The prepared statement of Ms. Sheets follows:]

PREPARED STATEMENT OF JUDITH E. A. SHEETS

PROBLEMS ARE NOT SOLVED BY IDEAS.

PROBLEMS ARE SOLVED BY IDEAS THAT WORK.

If we do not keep one eye on implementation as we do our planning then we have not done our job as planners.

This country is facing a serious problem. Unemployment is critically high. We are no longer talking about the chronically structurally unemployed, we are talking about the kind of people who have been working all their adult lives who have been consistant consumers and taxpayers. People whose unemployment not only effects cash flow in this country but adds to the burdens of benefit programs that would normally not service this category of worker. When these people are not working, cash flow is reduced, tax revenues are decreased, and an abnormal burden is placed on unemployment benefit programs. It does not take a great deal of insight to recognize that we need to put people back to work and we need to stimulate the economy.

We are here today to examine job creation legislation as a response to these needs. The economic decisions will have to come from the economist. Equally important to the basic economic considerations is the planning and implementation of such programs and how these factors effect the viability of our consideration of jobs creation legislation.

In doing so it is important to examine:

1) the historic use of jobs creation legislation including the original intent, the subsequent distortion and changes that purpose, and how that distortion effected the outcome of the programs use,

2) present planning parameters that will insure that we do not repeat past errors while we build a sound basis for a program,

3) offer recommendations that will incorporate the planning and implementation considerations developed from the historic systems examination.

HISTORIC CONSIDERATIONS

In my opening statement I said that problems are not solved by ideas but that problems are solved by ideas that work. There have been many questions posed as to if make-work programs of the past have ever worked. It is vital that we come to understand what it means to say that something does or does not work. Before we can judge the effectiveness of any measure, we must know what its purpose was. Ostensibly the purpose of jobs creation programs of the past have been--to fight a depression or recession by putting people to work. In the days of the New Deal, it really was that simplistic and straightforward. People were out of work and the government decided that maximum employment would be an official federal policy. As a result, the Public Works Act of 1933 was passed.

Subsequent attempts to legislate national make-work programs have not been as straightforward and simplistic in approach. Somewhere along the way people decided that make-work projects will also have "secondary" purposes. Suddenly make-work would provide valuable work experience so that the participant would be more prepared to be competitive in the private employment market. There was also the hope that many Federal jobs would be absorbed into the economy thus providing permanent employment for the make-work participants. Even more demanding was the premise that make-work projects be used as "seed money". The concept was that when services were provided by the federally sponsored projects their importance would be felt and the communities would "find a means" of continuing the project without federal assistance.

In addition to these secondary purposes for make-work, a careful examination of the actual use of the programs will unveil that there were hidden purposes that came into play at the state and local levels. One such purpose was to bail out local units of government. Indiana has been under a property tax freeze since 1973. Title XX funds have been used to subsidize the administration of State funded programs such as welfare, mental health, and Department of Corrections. CETA Public Service Employment(PSE) became the local government's answer to the lack of tax revenue resources. PSE positions helped augment the staffing in cities, counties, and townships. Ostensibly the idea was that these positions would be absorbed into the system. Unfortunately, when the CETA money was gone, so were the jobs. Because the reality was that PSE was being used to bail out local units of government who did not have the resources to absorb the participant regardless of the quality of his or her performance on the job.

Very similar to local government bail out there came into practice a parallel phenomenon. One of the hidden purposes became to artificially maintain some of the agencies and programs that had been begun by the Great Society and were now short of federal dollars and/or to continue some of the seed money projects that sprung up under such programs as LEAA and OJDPA. Again, these positions, even more than the positions in local government, had no hope of absorption. They were used not to stimulate the economy or put people to work, or even to provide work experience, but were dedicated to artificially supporting a system that would not survive without the make-work money.

Understanding those things that jobs creation has been expected to produce, let us examine each one of the purposes and determine if, in fact, the premise is valid. From that examination, we shall develop the planning parameters for the future.

Purpose - Fight Depression or Recession by Putting People to Work

Basic to the examination of this issue is the difference of make-work in a good economy verses make-work in a depressed economy. In our attempts to use make-work to fight recession in the early 60's and the mid 70's, we found that the recession bottomed out before the programs could reach fruition. The premise that is currently being advanced is that because of these experiences, we must assume that make-work is not a suitable anti-recession measure. That may be true. Even if it is, we must then question whether a recession is the same as a depressed economy; more importantly, were the recessions of the 60's and 70's different from what our economy is experiencing at this time.

From my corner of the world it looks a lot different. The Calumet Region was one of the last areas in the country to be effected by the recessions. We are a heavily industrialized area. In time of recession, we have needed to tighten our belts, and many people were laid off. Recessions in the past have been economic phenomena that we all know we just "live through". The jobs would be back and we would all recover. That is not the case now. We are no longer talking about plant lay offs, we are talking about plant closings. We are no longer talking about cutbacks in working hours, we are talking about business failures. We are no longer talking about going into debt for a while or living off of savings, we are talking about bankruptcy. The difference between recession and depression is not how many people or how much money, but rather, the permanency of the damage done. We maintain our economic strata in times of recession; however, we have to start all over from depressions.

Therefore, as we examine the viability of make-work under this major premise, we must separate the apples and oranges. The anti-recession efforts of the 60's and 70's are not equitable to the economic situation of today.

Additionally, the value of make-work as a means of stimulating the economy relates more to the implementation of the make-work program. Considerations should relate to the length of time needed to start up the program, the nature of the work created, and the people that you plan to employ through your efforts.

Most vital is understanding that if the purpose of the bill is to stimulate the economy, then planning must be directed to that end. Primary to that purpose is to examine who needs to be put back to work in order to stimulate the economy. Again, let us turn to how we have used jobs creation legislation in the past. Programs that postdate the great depression have targeted the structurally unemployed and the economically disadvantaged. It is the cyclically unemployed that are now effecting the cash flow of this nation. If the economy is to be stimulated, it would make sense to focus on the cyclically unemployed prior to dedicating any effort to the structurally unemployed. The cyclically unemployed are more intricately tied to the functioning of the economy. We must recognize that they become the key to the fulfilling of this purpose.

Purpose - Job Experience

Developing a make-work program in order to give people job experience is a little like cooking a turkey because you want giblet gravy. At best it might be a suitable side effect--an extra bonus--but it should not be the purpose of jobs creation legislation. If there is a need to provide experience for workers, then, the most economical and practical approach would be in subsidizing employment. There is even a question as to whether PSE experience has been an asset or a liability to the workers as they seek employment in the private sector. Entry level job experience in the public sector has never been viewed as equivalent to entry level experience in the private sector. PSE participants found that their CETA experience was hard to pedal as "legitimate" work experience in their attempt to secure employment in the public sector. This is also tied to the issue of stigmatization.

As the work programs of the 60's and 70's have been targeted for the structurally unemployed and the economically and socially disadvantaged, the image of the PSE worker was automatically tainted. They were stereotyped as the "dreggs of society"--the people who couldn't make it in the "real world" of work. They were thought to be either lazy, unskilled, or plagued with social problems. There was always a strong feeling that if they were "normal" they would be out working in the "real world". This thinking was a direct result of 1) the fact the make-work programs were being conducted during a time when cyclical unemployment was not a problem, 2) qualifying for the program automatically labeled the participant, 3) special consideration was given to PSE employees in that they were not required to work comparable to the regular employee and they were not answerable to the system that they were a part of; instead, they answered to CETA monitors that were not a part of the functioning of the company or agency where the participant was placed.

Purpose - Creation of Permanent Jobs

We have seen little or no evidence surface that make-work jobs of either the WPA variety or PSE kind resulted in the creation of non subsidized work opportunities. To the contrary, as federally subsidized programs--now known as "soft" money programs--lose funding, they are by and large going out of business permanently. Local communities are finding it difficult or impossible to find public or private funding for most of these programs. This seems to take place regardless of the quality of the program and the local need for the services that the program provided.

The gigantic configuration of federally supported services programs did not result in unsubsidized work opportunities. It also created potential social unrest by allowing people to become accustomed to services and privileges that would not be permanently supported. Part of this phenomenon is due to the fact that "seed money" rarely carried with it an obligation that the program produced a plan to become self-sufficient as a condition of funding. But a greater fallacy was the unsubstantiated dream that somehow subsidized work would magically become absorbed into a system that would transform it into unsubsidized work opportunities. This fallacy must not enter into future planning efforts.

Hidden Purposes

There is only one reason why a purpose would be hidden. That is because, if it were known, it would not be acceptable. This is true of both hidden purposes already discussed. When we realized that the PSE positions were being used to bail out local units of government and failing agencies with insufficient funding sources, we begin to see how far the make-work efforts of the 70's strayed from the original purpose of economic stimulation. If any jobs creation program is to be of value, the planning efforts must protect against such things as artificially maintaining systems not related to the central purpose, protecting special interest groups, and/or political manipulation.

PLANNING PARAMETERS

Our historical evaluation should enable us to develop planning parameters by which future efforts can be evaluated prior to implementation. Those parameters which are indicated by our historic evaluation include the following:

1) The system must be clear about who is to be impacted and why,
2) The system must build from a strength and not from weakness,
3) The system must have a clearly stated purpose,
4) The system must be project oriented,
5) The system must not be a product of legislation by example,

6) The system must not artificially support service systems,

7) The system should contain incentives.

People Impacted by System

As we approach the planning parameters, it is important to examine the nature of the populace to be served by the program. The unemployed can be divided into three categories:

1) the cyclically unemployed - those who are unemployed due to the downturn of the economy and can expect to return to work,

2) dislocated workers or the newly structurally unemployed - those workers that have a recent positive work history that have been displaced by technology, business failures, plant closings, and permanent cutbacks,

3) the traditionally structurally unemployed - those people who are unemployed during relatively good times.

Traditionally, unemployment has been viewed in only two categories--the cyclical and structural. However, this economic downturn is very different from the recessions of the past and if recovery is a goal, we must examine today's situation and make adjustments according to how that differs from the past.

Building From Strength Not Weakness

America's growth has come as a result of building on strength not weakness. Our future may now depend on our willingness to do so again.

Where is our strength? Traditionally, it has come from our willingness to meet adversity head on. Our strong work ethic, our commitment to progress, but most of all, from our people.

Let us once again look at the three categories of unemployed--cyclical, displaced, and structural. The greatest strength lies in the first two categories. These people have demonstrated their value to our economy. They have been supporting this country with their tax dollars through all of the good years. Recovery lies in our ability to turn them back into tax payers.

The selection of the people that need to be impacted by any federal effort is important. Equally important is the attitude and atmosphere in which the program is developed. If we approach development in a negative way, we can guarantee an uphill battle. If we approach development positively, we have a far better chance of making progress. We must not stigmatize the participants of the programs. We must not artificially support unrealistic service programs. In addition, we must recognize that these negatives do not have to inherently be a part of planning a jobs creation program.

Clear Cut Purpose

There are elements that must be inherent to the structure not the least of which is a clear cut definition of purpose. Legislative attempts to deal with serious national problems are sometimes inclined to try to be all things to all people. Jobs creation legislation has never been successful when this has been the case. Therefore, let us learn from the past and vow to do one or two things and do them right. Let us cook the turkey because we want turkey and if we get giblet gravy, it is just that--gravy. We must never lose track of the turkey.

Today, as we examine make-work, we are really talking about one central purpose. We want to fight this depression by putting people back to work. The Public Works Act of 1933 may not have been perfect, but it was the last piece of jobs creation legislation to be clear and straightforward in its purpose. Today's needs demand that we return to a straightforward purpose as we tackle the economic needs that we face as a nation.

Project Orientation

In line with building from strength not weakness and having a clear cut definition of purpose, comes the structural nature of the program. The past has taught us that service based public works programs have not been successful as an anti-recession measure. There are public works projects that are needed and planned in areas of high unemployment and would benefit employed and unemployed alike were they completed. Most of all they are projects that are clearly defined. They have a beginning, a middle, and an end. Most critically, an end. These projects do not artificially breed dependence as did many of the service oriented PSE programs did during the 60's and clearly in the 70's.

Let's look at the contrast between service based public works and project based public works.

Service based public works. The plan might be to go into a low income area and begin a community center operation. People would be hired to provide a variety of services for the area. Counseling services, recreational activities, day care, adult education and youth programs might be made available to the area residents. Eventually, the federal money runs out and the services are closed down. People in the neighborhood have grown to depend upon the center and disappointment and discontent result from the fact that the project has been terminated.

Project based public works. Using the same neighborhood, now we design a public works project that is not service based. The project calls for the weatherization of old housing stock. Crews evaluate the housing stock, prioritize the need, and weatherize 100 buildings in the neighborhood. The economy turns around; the project is terminated. People in the area benefit from the project by having reduced utility bills; energy use is maximized with resultant impact in the area of natural resource conservation and it could even have a positive impact on our national balance of trade. No one has become dependent on the project and it is seen as a positive force by all levels. It put people back to work when they needed it; helped improve the housing stock; had a positive effect on the disposable income of the neighborhood residents, and even served to address the nation's needs in energy conservation.

The project could just as easily been the building of a new bridge; repaving of a street, or modernization of a mass transit system. The key element is that it was a specific project that was well defined and did not breed dependency while it produced a tangible result.

Legislation by Example

It is important that as the planning takes place, we avoid legislation by example. There is a wonderful project in a local community and suddenly it is legislated into national policy. There are several elements that bear examination anytime we attempt to plan for a nation based on the experience of a locality.

Local characteristics. The needs and resources of a local community effects the kind of project that could be expected to succeed in that area. For instance, if the business or industry base produces a high number of entry level positions, then, a program that would train entry level skills could be planned. It would probably meet the needs of the area because it is making use of the employability resources of the community. If a community has an industrial base that depends upon continually changing technology, there would be a need for upgrading skills as the technology changes. Training entry level people would not impact unemployment or address the need of the community.

Structurally, there must be an examination of the nature of employment in a given area and planning should address the need. Therefore, taking an example from one area and expanding it to national proportion, is risky at best.

Pilot and model projects. A model project is an idea that is tried out in a given area and related to that area. A pilot project is a project that comes from a larger planning base and is being tested in a given area or areas. It is important to distinguish between these two elements as we examine possibilities for planning. Experience shows that a model is easily deleted when expanded beyond the original format. The pilot project having come from a larger planning base tends to respond to enlargement.

Structurally, there must be an examination of the nature of the project before it is considered for enlargement or distribution. Is the planning base a local model or is it a larger based pilot design? And, always, as we examine the design of any project, we must look to the source of success. It is often hard to know if the success is a result of the structure and systems involved or if it is a result of the dynamics of the individuals running the program. You cannot transfer motivation and dedication. One way of testing this factor would be to ask if this project would work if different people were running it. Has it been able to establish some longevity? Often if it is known that a second wave of people are running the program, there is a higher probability that it is not just the dynamics of the project originators. This normally occurs in the second or third year of a given project.

Artificially Supported Service Systems

Although the preceding parameters should preclude artificially supported service systems, it is important to restate this issue. As we examine those things that were weak and ineffective in previous attempts at jobs creation, the one consistent failing has been the artificial support of service systems. This issue came into play when local governments and service programs were bailed out through the use of PSE slots. Again, ~~it had a~~ negative effect was felt when we began to understand ~~a CETA participant~~ that it was financially more advantagious to be a CETA participant than when being employed in a similar position in the private sector. This was not the result of the base wage paid but rather a product of the artificially supported extra allowances such as child care, transportation, and clothing allowances.

When this element is present in a jobs creation system, it can cause the integrity of the entire program to be questioned.

Incentives

Federal programs have been known for discouraging efficiency. If you manage your grant money well and do not need to spend it all in the first year, you are rewarded by having your second year grant cut regardless of expansion needs or abilities. We can no longer afford such efficiency defeating attitudes. Planning should try to reward excellence; encourage efficiency, and build on the strength of the system. In short, we need to take a more business like approach to our planning. The product should be fulfilling the purpose and the structure should support that end.

These planning parameters can be employed as evaluation criteria as programs are presented for consideration. They represent the experiences of the past and provide a base evaluation for future planning.

PROPOSAL

We have now examined the historical background and development planning parameters. In keeping with this groundwork, I offer the following proposal.

The purpose is to stimulate the economy by putting people to work.

Two elements of the population will be impacted by the proposal - the cyclical unemployed and the dislocated workers.

Part #1 - Cyclically Unemployed

Involve them in project oriented public works programs. These programs should be specific in nature--well defined with a definite structure. They can be such things as construction, rebuilding the infrastructure, weatherization for the disadvantaged, but they must be project oriented and not service oriented. They should involve the cyclically unemployed that we expect to be called back when the economy turns around. This eliminates the possibility of artificially maintaining employment for people who cannot be expected to be productive in the private sector. This also feeds money into the economy by reestablishing the cash flow lost by the cyclically unemployed loss of income. It also uses those members of the work force that are currently most qualified and experienced. In addition, there will be a lasting benefit to society as a whole as the projects will be tangible and producing efforts that will be used by all people~~,~~ such as buildings, roads, bridges, parks, energy savings, etc.

Part #2 - Dislocated Workers or Newly Structurally Unemployed

This segment of the work force has already proven that they are capable of being productive. Now through factors that they have little control over, they find themselves without work and in some instances with unmarketable skills due to obsolescence and/or labor market demand. The jobs creation for this sector should take the form of skill upgrading and/or retraining. But unlike many previous training programs that were aimed at the economically disadvantaged, these programs will be based on merit. Displaced workers would compete for training positions. Elements such as ability, work history--including quality of work--attendance, advancement, stability, would be considered. We would make it clear that we are taking the best of the dislocated workers and retraining them first. We would be rewarding excellence, and, in doing so, it would be a positive thing to have been retrained under this federal program. Stigmatization would not be an issue and we would have a high probability of success. It would be money well spent. Once again, we would be making taxpayers out of those troubled souls who now face a very uncertain future.

In conclusion, it can be said that the feasibility of make-work is linked to both economic factors and implementation considerations. We can draw from our review of this countries past experience with jobs creation legislation and develop planning parameters. The suggestions made in the proposal forwarded today may or may not be the approach taken. More important is the need to examine any proposal for jobs creation legislation based on the planning parameters developed from our examination of previous attempts at make-work legislation. Planning must not take place without strong consideration for the implementation issues that are necessary to provide us with a probability of success.

Remember - PROBLEMS ARE NOT SOLVED BY IDEAS.

PROBLEMS ARE SOLVED BY IDEAS THAT WORK.

Senator QUAYLE. I certainly agree. We just have to figure out which idea it is that is going to work.

Thank you very much.

Mr. Mandes.

Mr. MANDES. I am here representing my boss. He is in tax hearings today.

Commissioner Gardner asked, as president of our commission, that I convey to you at the outset here a thank you for your leadership in the passage of the Jobs Training Partnership Act, which we are working with in our State and look forward to implementation of.

In his role, Commissioner Gardner is president of a commission which is an economic development arm of six Pennsylvania counties. That is the Johnstown-Altoona area, the area where we used to make steel and build railroad cars. We have had 15 years of experience in the economic development business with some moderate successes. It is an area of a half million souls in an area of 5,000 square miles.

During those 15 years, and Mr. Gardner tries to convey it in his testimony which is being submitted for the record, we try to convey the concern of the six counties regarding employment policy as we believe that employment policy, as was talking about in a previous panel, must be a national policy, a national policy geared toward job creation with a substantial role of the Federal Government.

During our 15 years, we have had the experience of working with every program and organization, everything from child care to overhaul of our highways. We have seen economic development programs that have worked and our experience has been that they can and do work and will continue to work and that jobs can continue to be created through Federal initiatives, jobs being created in the private sector; and that when that transpires, as it does transpire, then job training can and should be provided in accord with the strategies which you have laid out in the Jobs Training Partnership Act.

However, to use your expression about the economic wilderness that we are in now, prior to all that occurring we believe that we have got to substantially reduce the banks of the unemployed today, and to do so we have to address the problems of those who are structurally unemployed, those who are cyclically unemployed, and those who are not ready for jobs were they there and that we can couple public service jobs with temporary, gainful employment while giving people life skills, remedial skills for them to find their way in our private sector.

There is a twofold objective of that. One is that people work while they are productive. They can, our experience has demonstrated, provide services, those kinds of things that will help us expand our small businesses, our firms in our own region and at the same time studies at DOL and Massachusetts Institute of Technology demonstrate their earnings will be higher as they get in the private sector.

Senator, if I can digress for 1 minute, I listened to most of the testimony today and I wonder, I say this is not part of Commissioner Gardner's testimony, but he and I have both wondered, in terms of what we are doing, while all of us have had a great deal of experience in the past decade, Senator, with public works programs, with rounds of LPW in the billions, with the CETA expansion in titles II-D and VI we all know problems that occurred. We all know the deficiencies. We wonder aloud why we cannot take the problems in those kinds of programs and lay those aside with that experience and build upon the meritorious work that transpired under those programs.

We just humbly offer our services, Senator, and our experiences and our willingness to help.

Thank you.

[The prepared statement of Mr. Gardner follows:]

TESTIMONY BY JOHN W. GARDNER

My name is John W. Gardner. I am a Commissioner from Blair County, Pennsylvania and the President of the Southern Alleghenies Alleghenies Planning and Development Commission.

The Commission was formed by six predominantly rural counties in southcentral Pennsylvania for the purpose of creating jobs and enhancing the business climate of the six-county region.

My testimony today will focus upon what strategies our Commission in its fourteen (14) years of existence has seen are most effective in creating jobs, decreasing unemployment, and enhancing the business climate of our area.

Despite the valiant efforts of our Commission and local government, our six-county region suffers from many of the economic problems similar to other industrial areas of the northeast.

The fundamental problem of the region is the erosion of the industrial base. The major industries in the area -- steel production, coal mining, railroad maintenance and operation, and small-scale agriculture -- have all suffered from downturns in the general economy, but more importantly, have become either physically or technically obsolete. World and national markets have shifted and the economic base on which the region relied was left behind.

As indicators of the economic plight of our region, consider the following problems:

- The regional unemployment rate approaches 17 percent -- well above the national average; areas within the region have over 30 percent unemployment. Hardest hit have been the steel, coal, and railroad industry, with workers with up to twenty (20) years service furloughed with little or no hope of being called back to work.

- The per capita income level is less than $6,800 -- less than Pennsylvania, other northern industrial states, and the United States as a whole.
- The number of persons receiving public assistance is increasing, with over 25,000 of the Region's 500,000 residents now receiving some type of aid.
- The stock of residential, commercial, and industrial facilities is aging, and limited resources are available to rebuild them.

Despite the perhaps gloomy picture these factors demonstrate, the Commission does advocate several strategies which have helped in the alleviation of these problems.

It is our believe as a Commission that the economic recovery of our area is contingent upon the continuing partnership of the federal, state, and local governments with the private sector to solve many of these economic problems through coordination and cooperation. Our Commission currently is in the unique position of being designated a prime sponsor under the Comprehensive Employment and Training Act and we anticipate being designated a service delivery area under the new Job Training Partnership Act. In addition, our Commission has been designated as a local development district under the Appalachian Regional Commission Program and also an Economic Development District under the Economic Development Administration. It is our belief that the linkages and coordination between economic development and job creation programs which Senator Quayle has rightly advocated has been embodied in the activities of the Commission.

Designations alone, however, do not automatically guarantee a needed level of coordination. Let us review some examples of how these vital programs have been coordinated with local and private sector initiatives to promote economic recovery.

Permit me to explore two ARC assisted access roads near Appalachian Corridor N (U.S. 219).

On two sides of that corridor we have two major developments.

To the west, an access road services the Johnstown industrial park, developed and later expanded with ARC and EDA funds. In that industrial park are 14 industries employing 1,505 persons. Many of the employees working in that park were trained through customized job training programs developed by the private sector and financed through the Comprehensive Employment and Training Act.

To the east of that corridor lies an educational/commercial complex. If we drove down that access road, we would pass Richland Township High School, the University of Pittsburgh at Johnstown, the Johnstown Area Vocational Technical School, and the eastern regional headquarters of the Metropolitan Life Insurance Company. The Johnstown Area Vocational Technical School was built, equipped, and expanded with ARC assistance. The University of Pittsburgh at Johnstown received some impetus from an ARC investment.

The above development has taken place in an area which was farmland 15 years ago. There was no tax base available and we subsequently and selectively targeted ARC resources there.

In the above case, ARC funds were used to build a reservoir and a main transmission line to that area, making development possible.

The previous example was showcased to illustrate what strategies work best to create jobs in an area whose tax base is declining and whose industrial base is eroding. Needed improvements to land, roads, and infrastructure are needed for impoverished areas to have feasible chances in competing for the attraction of industry. Once industry is attracted to an area, relevant training programs for the unemployed are needed to provide the industry with an employable workforce. Through the creation by the Commission of a volunteer private sector task force which consists of over 100 businessmen from the six-county area, a valuable partnership was forged between local government and the private sector. These businessmen have been instrumental in the design and implementation of relevant training designs and curriculums which will provide workers trained specifically for the needs of industry. Currently at JGR Enterprises, Incorporated in Fulton County in our consortium 20 previously unemployed disadvantaged adults are being trained in a machinist program. This course, which involves classroom instruction and actual application experience was wholly designed by the private sector. In addition, Elco Corporation of Huntingdon County in our consortium is in the process of training twelve previously unemployed, disadvantaged individuals to become swiss screw machine operators. In both of these examples, there is a verifiable shortage of trained individuals in these skill areas, a high private sector demand for employing the completers of these programs, and a high level of private sector involvement in the basic impetus and design of the program.

Through the marriage and selective usage of funds currently available through federal job training legislation, the Economic Development Administration, and the Appalachian Regional Commission, new and innovative strategies to create jobs and improve the economic climate of our region are being initiated. A small business development center has been established in our region to provide technical assistance and training to current small businessmen and potential entrepreneurs in an effort to expand the number of individuals employed by small businesses in the region. In addition, a revolving loan fund has been established by the Commission to provide an incentive for new small business start-ups and the expansion of existing businesses within the region. An innovation center is also being planned to harness the talents of those inventors with business-marketable inventions and the linkage of these inventors with either a business market or needed venture capital. A labor management effort has also been spearheaded by the Commission to help establish in-plant labor/management committees and prevent potential labor/management problems in the area. In addition, a marketing campaign has been initiated to attempt to attract more businesses to the area.

It is our view as a Commission that currently at the federal level, the new Job Training Partnership Act, the Economic Development Administration, and the Appalachian Regional Commission Programs coordinated together can best foster the job creation and job training necessary to help alleviate the unemployment and economic problems of our area. However, given the current dire state of our economy, some additional initiatives may be necessary to permanently reduce the substantial number of individuals who are currently unemployed.

First of all, all job training efforts may be futile unless a national policy specifically geared toward job creation is initiated. It is our belief that private sector job creation can best be realized through expanding economic development programs under the Appalachian Regional Commission, the Economic Development Administration and the Small Business Administration to improve the availability of developable land, improve infrastructure, supply venture capital, and technical assistance necessary to encourage new small business creation and the expansion of existing businesses. Locally, our six counties have initiated on their own the creation of the Southern Alleghenies Enterprise Zone, in which substantial tax and regulatory relief will be provided by local governments in order to induce new or expanding businesses to locate in high unemployed areas within the six-county region. This effort could be substantially augmented by the enactment of a Federal Enterprise Zone program, which the Commission advocates.

Once jobs are created through expanded economic development initiatives at the federal, state, and local levels, job training should be provided consistent with the strategies outlined in the Job Training Partnership Act. Customized job training, specifically targeted towards the skill levels and areas of expertise needed by private industry, is a meaningful way of training and retraining otherwise job-ready individuals who are unemployed.

However, in order to substantially reduce the ranks of the unemployed, one must address the problem of how to best prepare the individual who is not only unemployed, but also not job-ready for gainful employment. Programs should be initiated which can provide temporary gainful employment in the public sector combined with intensive life-skill counseling and remedial education in order to prepare individuals to be job-ready and able to be successful in skill-oriented programs geared toward the needs of private sector employers.

The need for public sector employment programs is thus twofold. Public sector employment programs can provide substantial manpower for the community improvements necessary to encourage the expansion of existing firms and the creation of new small businesses. In addition, public sector employment provides chronically unemployed individuals with a valid work experience, an increased likelihood of gainful employment, and pride and sense of accomplishment for the previously unemployed worker. Studies done by Robert Taggart, previous director of the Office of Youth Programs in the Department of Labor, and further studies done by MIT regarding previous public service employment programs, demonstrated that net earnings of participants increased as a direct result of participating in this type of program.

Until the results of a more intensive economic development policy are realized, there will be a substantial deficiency between the number of jobs available in the private sector and the number of individuals unemployed. Until more jobs are created in the private sector through substantial economic development efforts at the federal, state, and local levels, short-term employment opportunities in the public sector should be created in order to alleviate the frustration and hopelessness currently felt by the unemployed. As stated earlier, short-time employment can in turn bolster economic development efforts and create the needed jobs in the private sector.

I would like to thank the Senator and Committee for the opportunity to testify today.

Senator **Quayle**. Thank you. I appreciate the spirit in which that statement was made.

Mr. **Howe**. Thank you, Mr. Chairman, for this opportunity to speak about the American Conservation Corps.

I have a written statement which I hope can be put in the record.

Senator **Quayle**. It will be.

[Additional supporting materials are on file with the subcommittee.]

Mr. **Howe**. I work for the Human Environment Center, which is a meeting ground of conservation, environmental, human resources, and urban interests. We are working to pull those interests onto more common ground, and one of their loud and clear common aims way is the employment of youth in conservation programs.

We have been studying this subject for about 2½ years. The first and foremost point about the proposed American Conservation Corps and related programs is that they are proven, cost-efficient, and productive programs. The recently ended 4-year experience of the Young Adult Conservation Corps produced for each $1 spent work that would have cost $1.20 by the cheapest alternative means. That was the average across the public lands, the States and other agencies that operated YACC units. The average ACC position cost per year for each youth is estimated to be $11,500. I would note that this compares very favorably with some horrendous data in your announcement of these hearings, which referred to positions costing up to $80,000 per year.

The ACC program is a bipartisan and multi-interest one that has been long in preparation. It is not simply a hurry up jobs-creation program.

The legislation written 1½ years ago went through two House hearings and markups and had a well-attended Senate hearing in September. This is a Federal-State-local partnership program which in its present language would authorize $250 million a year to be appropriated, half going to Federal agencies to operate ACC crews, 35 percent to State agencies, 5 percent to Indian tribes, and the remainder to such agencies as TVA, the Corps of Engineers and for demonstration projects.

The States would have to produce a 15 to 85 percent State-Federal match and to put at least 10 percent of their funds into local government operation of Conservation Corps programs.

Moreover, there would be opportunity for this youth work to occur on private lands where public benefits are realized with reimbursements from private landowners for their benefits from the work performed.

Special consideration will be given to economically, socially, physically, and educationally disadvantaged youth. There will be training, counseling and post-Corps placement assistance for the youth involved.

I should note that State governments are moving into this opportunity, this uniquely cost-efficient opportunity, to employ youth and conserve resources.

The California Conservation Corps, with some 1,900 enrollees, is the foremost example, and it has operated for 5 or 6 years. A number of other States have started corps programs in the last 2 years, and some will be moving this year. With ACC enactment, the Federal-State partnership will be very real. The work needing to be done in urban and rural areas by conservation crews is ready to go. In the U.S. Forest Service, the National Park Service, the Fish and Wildlife Service, the Bureau of Land Management and other Federal agencies there are trained personnel who have run these programs. They know how to do it. The same is true in the State agencies.

The House voted this program 291 to 102 last June 9. A companion Senate bill had 21 cosponsors, and 43 national organizations are backing the ACC. A House hearing is expected in early February. We hope very much that you will urge Senators Wallop and McClure to have the Energy and Natural Resources Committee process this legislation quickly and take it to the Senate floor.

Finally, I would like to mention a different program that is an important, environmentally sound opportunity for job creation. This is the Urban Park and Recration Recovery Act program operated by the National Park Service. There are, in over 200 cities, work plans ready to go for park renovation that is desperately needed—especially now for idle and poor people who have neither jobs nor alternative recreation opportunities.

One hundred million dollars could easily be used for ready-to-go, labor-intensive urban park improvement work under that already authorized program.

Thank you very much. I will be happy to answer any questions you might have.

[The prepared statement of Mr. Howe follows:].

Testimony of Sydney Howe, Executive Director of the
Human Environment Center, at Oversight Hearing of U.S.
Senate Subcommittee on Employment and Productivity
concerning Federal Job Creation, January 12, 1983

Mr. Chairman, I am Sydney Howe, Executive Director of the Human Environment Center based here in Washington. Your invitation to speak about the proposed American Conservation Corps today is appreciated very much.

For your information, the Human Environment Center convenes urban, minority and environmental conservation interests in pursuit of their common goals. The employment of jobless youth to restore and maintain urban and rural resources is a major mutual aim of those interest groups, and we have provided research and education services for their conservation corps efforts over the past two and a half years. Forty-two national organizations backed the American Conservation Corps Act that passed the House last June by a 291 to 102 vote.

The first point I should make is that the American Conservation Corps -- the "ACC" hereafter -- is not primarily a job-creation program. Its first purpose and fundamental basis is cost-efficient protection, rehabilitation and management of natural and community resources. In fact, I submit to you that if someunique machine could produce work at the low cost demonstrated by conservation corps programs, it would be scandalous that our public agencies were not using that very machine all across the country! Taxpayers would be up in arms over such waste of public funds.

The trouble is that it is not a machine, but simply young men and women in crews working at the minimum wage who have been producing for $1.00 work that would have cost $1.20 by the cheapest alternative means. That was the average experience of the year-round Young Adult Conservation Corps from 1977 to 1982.

Some have said that the YACC did low-priority work, but who is to label dilapidated city parks and neighborhoods as "low-priority"? Or vital topsoil washing out to sea? Or emergency services in natural disasters? Listen to U.S. Forest Service Chief Max Peterson on his YACC program:

> ...,we try to find labor-intensive work in locations of high unemployment. Therefore, we theoretically do some projects that would not reach the priority level until sometime later. To a large extent, however, we are trying to be sure the work we do is, in fact, high priority... *

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* In House Government Operations Subcommittee hearing 6/25/81.

So, my first point is that it has been proven beyond any reasonable doubt that conservation corps crews typically perform work needed to save our public estate and make it productive, and at the lowest possible cost. And all of that is said without regard to the otherwise cost-free concurrent benefits to American youth and our entire society.

Second, those benefits to young people and the Nation are large. We have no precise way of assessing them, but I think you in this Committee have heard and know much about the malignancy of youth idleness and the related distress and costs of crime, welfare-dependency, ill-health and dead-end hopelessness. It is hard to find the logic in further ignoring what the National Urban League calls this "cost-effective opportunity to save human resources and natural resources at the same time."

The American Conservation Corps Act of 1983, essentially identical to the bill adopted overwhelmingly by the House last year, will be introduced with bipartisan sponsorship in both chambers this month.

The press announcement of this hearing observes that job creation can cost as much as $80,000 per job. The ACC will cost $11,500 per job. The ACC means hard work, not "make-work", and it is no experiment. It is based on proven results that were obtained first from the Civilian Conservation Corps in the 1930's. Extensive multi-interest and bipartisan consultations, re-drafting, hearings and amendments have brought diverse conservation corps experience and lessons into the ACC program design initiated in 1981.

The new Corps is ready to go. Young men and women age 16 to 25 will be at work across the country, in Federal, state, tribal and local arms of the ACC, within 60 days of enactment and funding. (It may be of interest that over 200,000 CCC enrollees were put to work in four months of 1933. Estimates suggest that the number of idle youth today is close to that of 1933, but where is comparable compassion in this age of speed, mobility, and vastly greater national resources?)

Federal and state bureaus now have the experienced personnel and the proven procedures, work plans and facilities to recruit and engage conservation crews immediately. The work is virtually crying to be done, in degraded city wastelands, in unmanaged forests that must produce for any restored housing market, and in park protection, energy conservation, flood damage reduction and other pressing public needs.

Our Center cannot keep up with the number of states siezing the conservation corps opportunity, which ACC funds would complement in a Federal, state and local partnership. The popular, oversubscribed California Conservation Corps leads the way with 1,900 enrollees, and other year-round or summer programs operate -- or have operated through 1982 -- in Alaska, Connecticut, Illinois, Iowa, Kansas, Maine, Minnesota, Ohio, Washington and Wisconsin, and under the Tennessee Valley Authority. New initiatives are proposed in Arkansas, Florida, Maryland, New York, South Carolina and Virginia.

Mr. Chairman, conservation corps programs work, and we are missing the boat nationally.

Finally, it is most important that, unlike prior conservation corps programs, the recruitment of "economically, socially, physically and educationally disadvantaged youths" will be emphasized in the ACC. Others from that terrible 25% of American youth who are unemployed will be included, and some mix of economic backgrounds can be a peer-group asset. But please observe that major national groups representing the disadvantaged and minorities, along with major conservation, urban and youth interests, want the ACC now. Please note, as well, that the ACC will offer its people skills training, counselling and job-placement services. A recent report states that "private employers beg for California Conservation Corps graduates" who have completed that tough one-year program.

If I may hazard a brief political observation, I would note that the Civilian Conservation Corps was espoused, virtually alone among New Deal programs, by The Chicago Tribune, Alf Landon, and others across the sharply divided political spectrum of the 1930's. The CCC showed a depressed people that things could get better, and the Corps became a bipartisan pride of the whole nation. All too many of our people need such hope today.

The 50th Anniversary of the CCC, incidentally, falls on April 17th of this year.

Thank you, Mr. Chairman, for this opportunity to testify. A summary of the ACC plan, listing its major supporters and related information, is attached to this testimony. I would be pleased to respond in further detail to questions you may have about conservation corps programs.

# # #

About the

AMERICAN CONSERVATION CORPS ACT OF 1982

IN THE U.S. HOUSE OF REPRESENTATIVES:

Introduced as H.R.4861 Oct. 29, 1981 by Reps. Seiberling (D-OH), Moffett (D-CT), Roybal (D-CA), Bereuter (R-NE) & Conte (R-MA). Amended and reported by Interior Committee 5/4/82 and by Education & Labor Committee 5/17/82, in House Rept. 97-500, Parts 1 & 2. Co-sponsored by 101 Members. Floor debate 6/8/82, passed 291-102 on 6/9/82, Democrats voting 217 for & 6 against, Republicans 74 for & 96 against.

IN THE U.S. SENATE:

Companion S.2061, the Public Lands Conservation, Rehabilitation & Improvement Act (original House wording & title), introduced Feb. 3, 1982 by Sens. Moynihan & Mathias. Now co-sponsored by Sens. Bumpers, Burdick, Cannon, Cranston, Dodd, Glenn, Hatfield, Hayakawa, Heinz, Jackson, Leahy, Levin, Metzenbaum, Pell, Pryor, Randolph, Sarbanes, & Stafford. Hearing on H.R.4861 & S.2061 held Sept. 22 in Energy & Natural Resources Subcommittee on Public Lands & Reserved Water. Floor vote on H.R.4861 expected in "lame duck" session.

SUMMARY OF HOUSE-PASSED BILL
(from House Education & Labor Committee)

PURPOSES

The bill establishes the American Conservation Corps, a program to provide employment and training opportunities for young men and women, particularly those who are disadvantaged and living in areas of high unemployment, in projects accomplishing the conservation, rehabilitation and improvement of natural and cultural resources located on public or Indian lands.

FUNDS

The program would be funded through 1989 by using an unspecified percentage of the Federal revenues generated from various leasing and permitting activities—oil and gas leasing, timber cutting, franchise fees, etc. However, the authorization for appropriations would be set at $50 million in fiscal 1983 and $250 million annually thereafter through fiscal 1989.

ALLOCATIONS

Of the total annual appropriations, 35 percent would be distributed to States, 25 percent each to the Departments of the Interior and Agriculture, 5 percent to participating Indian tribes, and 10 percent to other Federal agencies and for special projects. States would be required to provide 15 percent matching funds and to provide a mechanism for local government participation.

WORK PROJECTS

The Secretary of the Interior is responsible for administering the program, with the cooperation of the Secretary of Agriculture and after consultation with the Secretary of Labor. Conservation projects include conservation of forests, fish, wildlife, rangelands and soils; revitalization of urban areas and preservation of historic and cultural sites; development and maintenance of recreational areas, roads, trails, and so forth; erosion and pest control; energy conservation and production of renewable resources. Work done on private lands must provide documented public benefits and requires reimbursement for any non-public benefits.

RECRUITMENT

The program has both a year-round and a summer component. Enrollees must be unemployed and between the ages of 16 and 25 for the year-round program (or between 15 and 21 for the summer program). Special consideration in the recruitment and selection of enrollees must be afforded to youth who are disadvantaged and who live in areas of high unemployment. . .

Some 100,000 young men and women would serve in the ACC each year, at minimum wage, in an estimated 50,000 summer positions and 20,000 year-round ones, with enrollee turn-over.

ORGANIZATIONS BACKING H.R.4861 AND/OR S.2061:

AFL-CIO, American Forestry Assoc., Center for Community Change, Children's Foundation, Environmental Action, Environmental Defense Fund, Environmental Policy Center, Environmentalists for Full Employment, Friends of the Earth, Full Employment Action Council, Human Environment Center, Izaak Walton League of America, Mexican Amer. Legal Defense & Education Fund, NAACP, National Assoc. of CCC Alumni, Nat'l. Assoc. of Conservation Districts, Nat'l. Assoc. of State Cons. Corps Program Agents, Nat'l. Assoc. of State Park Directors, Nat'l. Audubon Soc., Nat'l. Board-YWCA, Nat'l. Congress of American Indians, Nat'l. Council of La Raza, Nat'l. Council of Negro Women, Nat'l. Parks & Conservation Assoc., Nat'l. Recreation & Park Assoc., Nat'l. Trust for Historic Preservation, Nat'l. Urban Coalition, Nat'l. Urban League, Nat'l. Wildlife Federation, Nat'l. Youth Work Alliance, Native American Rights Fund, Natural Resources Defense Council, Northeast Utilities, Preservation Action, Roosevelt Centennial Youth Project, Sierra Club, The Hartford Steam Boiler Inspection & Insurance Co., The Wilderness Society, Trust for Public Land, U.S. Conference of Mayors, U.S. Student Association, Urban Environment Conf.

SOME COMMENTS:

Christian Science Monitor, 6/11/82: "Few persons could really fault the White House for rejecting obviously costly makework programs at a time of budget constraints. But surely, such a modest new conservation corps plan as now voted by the House does not fit that category...The new American Conservation Corps plan makes good economic sense. It deserves swift approval." Hartford Courant, 7/5/82: (The ACC) "would help meet immediate, practical needs by reducing youth unemployment and conserving public resources...It is a good idea whose time has come -- again." West Chester, PA Daily Local News, 7/7/82: "It would be almost criminal to kill this legislation."

Rep. Silvio Conte (R-MA): "I think this bill...marries up the idea of the Youth Conservation Corps and the Young Adult Conservation Corps, and attempts to eliminate past weaknesses of both of those programs...A program such as this will go a long way in helping to relieve the high unemployment rate among our young people..." Rep. Don Young (R-AK): "...not much else that is tangible and proven to be workable by a good track record is around to grab hold of." Senators Moynihan and Mathias: "We hope the Senate will act on this legislation in the near future. Our young people deserve no less." Rep. Toby Moffett (D-CT) questioning U.S. Forest Service Chief R. Max Peterson, June 25, 1981, about youth conservation work (YACC since halted):

Q Is not your agency's Young Adult Conservation Corps a cost-effective program in your view?

A Yes, it is.

Q Would you not agree that these programs accomplish their goals of: No. 1, providing employment and other benefits to young people who would not otherwise be currently employed; and, No. 2, assisting in completing projects of a public nature on Federal and non-Federal public lands and waterways?

A That is correct...we try to find labor-intensive work in locations of high unemployment. Therefore, we theoretically do some projects that would not reach the priority level until sometime later. To a large extent, however, we are trying to be sure the work we do is, in fact, high priority...

ADMINISTRATION POSITION

The Reagan Administration has thus far opposed ACC enactment, asserting that the YACC and YCC neither served disadvantaged youth sufficiently nor performed high-priority conservation work, [illegible] that ACC appropriations cannot be justified.

- Human Environment Center
September 3, 1982 (Revised 10/4/82)

Senator **Quayle**. Ms. Sheets broke down public service jobs into two categories, one being service oriented and the other being project oriented. In which category would you put the American Conservation Corps, projects or services?

Mr. **Howe**. I would say both. The main work would be in projects defined by the land agencies and local governments. I am not sure of the distinction here perhaps.

Would you elaborate on the service side?

Senator **Quayle**. I think the distinction is—and Ms. Sheets, maybe you can amplify—but services are adult education, service rather than project, "project" being specific projects, like weatherization of a home, rehabilitation of a building. Once the job is completed, there is some tangible result there and not something ongoing which would be service orientated. A lot of people become dependent on services and then you stop the project or stop the spending.

But if it is project oriented, it is completed, an improvement is there. The activity is completed and not dependent on continued funding.

Mr. **Howe**. The corps funding authorization would run to 1989. This is not to be seen as meeting a 1- or 2-year hurry-up need of young people. We believe that technology has outstripped the needs of youth, that the Nation must face that fact for some time ahead, and that this should be a continuing program for the decade, let's say, in which we begin to give opportunity to neglected young people.

Senator **Quayle**. So you would not put it in either category?

Mr. **Howe**. The products are what you define as projects. Included are services to youth in skills training, counseling and job placement, yes.

Senator **Quayle**. Let me ask just one final question, and it is sort of the reverse of what we have asked everyone else. I wonder if you would tell us one thing that you think Congress should not do in the area of jobs creation. We have heard all sorts of proposals for what we should do. Is there one thing that should not be done in this broad area of jobs creation?

Ms. **Sheets**. I would like to respond to that because I think I was pretty clear in my testimony.

I very strongly believe that we cannot formulate jobs creation legislation that is supposed to be designed to stimulate the economy and base it on services that other people can become dependent on. Services that we have no intention of continuing. We set everyone up to fail when we do that. Our experience with CETA and PSE told us that the job skills, the training and the experience that were received by the CETA participants were not readily transferable to the private sector. PSE was not considered a real job. Participants were stigmatized just by qualifying for the program. To make this mistake again and to repeat what we should have already learned from this I think would be disasterous and just an impardonable waste of tax money.

Senator QUAYLE. Thank you

Do you agree with that, Mr. Howe?

Mr. HOWE. I have not studied that matter. If you want to know what I think you should not do, do not appropriate the full defense budget.

Senator QUAYLE. A lot of people argue that is job creation.

Mr. HOWE. At much higher wages than those we are proposing. You can serve a much greater portion of the population in need with other programs.

Senator QUAYLE. Mr. Mandes?

Mr. MANDES. I think that depends on the intent of the Congress. If we are going to be countercyclical, then let's create jobs in a countercyclical fashion, whether they are in service or projects. Some of these services in distressed areas can be very, very critical. Because of what I do for a living, I might value building of an industrial park rather than some nurse's aides to indigent people, but I am not sure that is correct. I think it has to be the will of the Congress.

But back to your question of what we think you should not do, I think when we deal—please do not fail to target. I think that was missing in the AFL-CIO testimony. If we do the things we did with the public works, where everybody just got an amount of money—for example, the city of Washington received $50 million in the midst of a construction boom. That was almost laughable. I think we can target and target into distressed areas.

Can I add something, one final statement?

I am troubled by the previous witnesses, about their use of the word "money." I have a little difficulty differentiating between the extending of unemployment compensation benefits in the Commonwealth of Pennsylvania and the extension of employment. Both will end up coming out of the same pot of money, and I think our people would rather have employment extended rather than unemployment compensation.

Senator QUAYLE. Rather have jobs?

Mr. MANDES. Yes. Yesterday, we had 300 turn up for a job at Altoona High School.

Senator QUAYLE. Thank you all very much.

Next, we have a panel consisting of League of Women Voters, Nancy Neuman; Wider Opportunities for Women, Vikki Gregory; Service Employees International Union, Geri Palasti; American Federation of State, County and Municipal Employees, Cathy O'Reilly Collette; and the National Committee on Pay Equity, Joy Ann Grune.

I understand Ms. Neuman will speak on behalf of the panel.

STATEMENTS OF NANCY NEUMAN, FIRST VICE PRESIDENT, LEAGUE OF WOMEN VOTERS OF THE UNITED STATES; VIKKI GREGORY, WIDER OPPORTUNITIES FOR WOMEN; GERI PALAST LEGISLATIVE DIRECTOR, SERVICE EMPLOYEES INTERNATIONAL UNION, DISTRICT No. 925; CATHY O'REILLY COLLETTE, COORDINATOR OF WOMEN'S ACTIVITIES, AMERICAN FEDERATION OF STATE, COUNTY, AND MUNICIPAL EMPLOYEES; AND JOY ANN GRUNE, EXECUTIVE DIRECTOR, NATIONAL COMMITTEE ON PAY EQUITY, A PANEL

Ms. **Neuman**. I will give the statement and my colleagues will be here to answer questions, if you have any.

We have two changes in the panel Betty Jean Hall was not able to be here due to illness and Jackie Ruff is being replaced by Gerri Palast.

I am Nancy Neuman, first vice-president of the League of Women Voters of the United States. We are very pleased to have the opportunity to present the common concerns that the League of Women Voters shares with the other organizations that are represented on this panel on the subject of employment and, more specifically, the employment needs of women in these difficult economic times.

Senator, we are grateful that you have started off the new year by convening these hearings on what is clearly the most critical domestic problem facing this country today—the devastating unemployment that has touched over 11 million workers, resulting in the highest unemployment rate since the days of the Great Depression—10.8 percent at the end of 1982. We sincerely hope that this interest on your part can be translated into effective and immediate action by Congress that will help put Americans—women and men—back to work.

While the unemployment crisis has affected all segments of the population, those of us sitting here at this moment would like to focus on just one segment that has been affected—women. We want to emphatically state that it is time for the Federal Government to recognize that the American labor force is comprised of both working men and working women. And that the unemployment crisis that this country faces today is a crisis for both men and women. With this recognition must come Federal programs and policies that will put all Americans back to work.

In September 1982, over 48 million women, 16 years and over, were in the labor force. This represents approximately 43 percent of all workers in the labor force. The labor force participation rate of women has doubled since 1960. On the other side of the coin, 9.5 percent of women were unemployed as of November, with the figure approaching 50 percent for young, black women. Women continue to earn only $0.59 for every $1 earned by men. This is a decrease from $0.64 in 1955. In 1981, women workers with four or more years of college education earned approximately the same income as men who had only 1 to 3 years of high school, respectively, while women high school graduates earned less than men who had not completed elementary school.

Women work for the same reason men do—economic necessity. A growing proportion of American families are headed by women—6 percent in 1982 as compared with 12 percent in 1972. However, for minority women the figure is even higher: 41 percent of all black families and 23 percent of all families of Spanish origin. Unfortunately, almost 1 in 3 female-headed families lives in poverty today, as contrasted with 1 in 18 headed by men.

With more women in the work force, the need for child care is more acute than ever. Forty-six percent of all children under the age of 6 have mothers in the labor force. I think you will agree that these figures vividly demonstrate that working women are a fact of life in America today, and that their needs can no longer be overlooked in planning for the economic needs of our country.

We are gravely concerned about the severe unemployment problem that exists in America today. We are concerned about plant closings that create displaced workers, about automation that frequently eliminates the lowest jobs on the employment ladder—jobs that are frequently held by women. We are concerned about the structural unemployment caused by a lack of job training for young people. And, we are concerned about pay equity for women—those women who are fortunate enough to have jobs but whose worth is often undervalued, so they are unable to earn a living wage.

There are already major laws on the books—The Equal Pay Act of 1963, title VII of the Civil Rights Act of 1964, and Executive Order 11246, that are designed to eliminate employment discrimination against women. All of these tools can be effective, when they are rigorously enforced. We are deeply concerned about this administration's failure to vigorously enforce these laws.

Thus, women really face two obstacles in pursuit of employment opportunities: One, the traditional, but totally inaccurate concept that unemployment is not really a women's problem because women don't really need to work, and two a Federal Government that has abdicated virtually all of its responsibility for eradicating employment discrimination.

We therefore want Congress to make it perfectly clear in passing any new jobs legislation, that policies of nondiscrimination and affirmative action must be effectively enforced, and that women will have equal access to all jobs created by new employment policies. We also believe that it is incumbent upon the Federal Government to get its own house in order, because traditionally, the Federal Government has been a leader in promoting women minorities to high level jobs. Aside from civil rights enforcement, we believe that recent Federal employment policies—with few exceptions—have failed to recognize the very real needs of working women.

For example, the work incentive program—an employment strategy for welfare recipients—has traditionally been used to place women in low-paying, dead-end jobs. In the early days of the program, male welfare recipients were given preference for available slots in the program. While this practice was eventually eliminated by court order, traditional job placement patterns continued. We believe, however, that the basic structure and goals of the WIN program are sound, and that it can be an effective means of servicing the employment needs of women who receive income assistance. However, the program needs more financial resources, as well as a change in focus; for example, to make a concerted effort to place women in higher paying, nontraditional jobs.

Women have been active participants in the CETA program. However, it was not until the 1978 amendments were passed by Congress, that substantial efforts were made to train and place women in nontraditional jobs. We therefore hope that the provisions of the new Job Training Partnership Act that target training to women receiving income assistance will meet with the same success as did the provisions of CETA that targeted economically disadvantaged women.

With respect to dislocated workers, we are pleased that the Job Training Act includes a section that addresses this segment of the population. But we would like to emphasize that women are also suffering the dire consequences of displacement. It is often easy to overlook the displaced female worker, because the image that typically comes to mind with displacement is a closed factory and long unemployment lines consisting largely of men.

However, displacement is occurring in other sectors of the economy as well. There are large numbers of displaced mental health workers—largely female—due to the trend of deinstitutionalization combined with budget cuts in social service programs. There is displacement in the banking industry. As electronic money transfer systems proliferate, bank tellers—again predominantly women—face the loss of their jobs. And there has been displacement in the telecommunications industry. With increased automation, there has been a decrease in the number of telephone operators—once again mostly women. It is imperative that job displacement be recognized for what it is—an extreme hardship for both men and women. Job training for displaced workers must extend to displaced female workers as well as men.

We are concerned that adoption of a subminimum wage could have an adverse impact on women workers. A subminimum wage, designed to provide jobs for teenagers, would displace female workers, those at the bottom of the jobs ladder who are currently working at the minimum wage level, with even lower paid teenagers. Such a situation would serve only to exacerbate the unemployment problem that women face today. Likewise, we are concerned about the lack of job training and pay equity associated with workfare programs. We do not view workfare as an acceptable employment option for women.

With an economy that is moving quickly toward a complex, highly technical job structure, it is critical that any jobs creation strategies target these industries, both for training and for jobs. As both men and women are equally unprepared for these jobs, there is a wonderful opportunity for women to get in on the ground floor. And with new jobs comes an opportunity to create a new wage structure—one that fully acknowledges the contribution that women workers make. It is an opportunity to implement pay equity, without upsetting a preexisting wage structure. Finally, it is an opportunity to insure that low level jobs will have training and upward mobility options connected to them.

We urge Congress to take immediate and effective action to put America back to work. We know that you will be examining many employment proposals in the next few months. In order to achieve this goal, we believe that any employment proposal should contain the following:

First, nondiscrimination and affirmative action provisions consistent with title VII, the Equal Pay Act and Executive Order 11246, and they should be enforced. If any jobs are to be created by an act of Congress, then women must receive their fair share of such jobs. It is incumbent, therefore, that any such legislation insure access to nontraditional jobs for women, as well as to more traditional jobs that women are already trained for. This country cannot tolerate more legislation like the recently enacted Federal gas tax increase because few of the jobs created by that act will go to women. Those jobs have for the most part been unavailable to women, and the gas tax bill contains no incentives to hire women for those jobs.

Second, provisions for occupational development, upward mobility, development of new careers for women, and for overcoming sex stereotyping.

Third, provisions for the creation of public sector jobs, with equal pay and benefits for women. At the same time, there must be safeguards to protect against the displacement of public employees, so that they do not lose their jobs to those hired under any public employment schemes.

Fourth, provisions for the development of alternative work schedules, including flexitime, part-time and at-home work and experimentation with such programs as short-time compensation. However, alternative work schedules should not be implemented without adherence to collective bargaining agreements and fair labor standards, and should include bilateral implementation by union and management.

Fifth, provisions for the expansion of resources for child care. Women must have child care when they are to go to work. We are pleased that the Tax Equity and Fiscal Responsibility Act of 1982 passed by Congress last summer includes incentives for employer-operated child care centers. While a step in the right direction, it is simply not enough.

While Congress hath given with the right hand, it hath taken away with the left, by reducing funding for the social services block grant that subsidizes child care for low-income persons. Child care must be available and it must be affordable, because if it is not affordable, then it simply is not accessible.

Sixth, provisions that will insure pay equity for women workers. We cannot stress too strongly the need for pay equity. Women, like men, must earn a living wage if they are to support themselves and their families. The fact is that for many men, a job is all that is needed to propel them out of poverty. However, for women, this is so often not the case, because wages for traditional women's work are very low. Many women who work full time still qualify for food stamps and/or income assistance. We therefore urge that any employment legislation considered by Congress include pay equity—or equal pay for work of comparable value—as a component.

We cannot overestimate the value of traditional women's jobs to society. Many of the jobs that were eliminated when the public service component of CETA was abolished were jobs in child care centers, centers for the elderly, meals on wheels programs, displaced homemaker programs and domestic violence shelters. These programs provide invaluable services for our society. Many women are trained to perform these jobs, and would be eager to work in such facilities. Caring for the needs of our people is every bit as important as caring for the needs of our roads, bridges, and sewers. We therefore urge Congress to consider the needs of the American people when it thinks about jobs legislation.

The employment needs of women are complex and are not easily detailed in a short presentation such as this one. Therefore, Senator, we urge you to set aside a full day of hearings on this particular subject. The groups represented here and many others have joined together to work on specific proposals for women's employment. We would be happy to share those proposals with you at a later date. Additional hearings would provide a good opportunity to do so.

I would like to thank you for inviting us and I am sure my colleagues on the panel will be happy to answer questions.

[The prepared statement of Ms. Neuman follows:]

League of Women Voters of the United States • 1730 M Street, N.W. Washington, D.C. 20036 Tel. (202) 296-1770

TESTIMONY BEFORE THE
SUBCOMMITTEE ON EMPLOYMENT AND PRODUCTIVITY
OF THE SENATE LABOR AND HUMAN RESOURCES COMMITTEE
ON
EMPLOYMENT
BY NANCY NEUMAN, FIRST VICE-PRESIDENT
LEAGUE OF WOMEN VOTERS OF THE UNITED STATES
JANUARY 12, 1983

I am Nancy Neuman, First Vice-President of the League of Women Voters of the United States (LWVUS). Thank you for this opportunity to present the common concerns shared by the LWVUS and the other organizations that are represented on this panel on the subject of employment--more specifically--the employment needs of women in these difficult economic times.

With me today are: Betty Jean Hall, on the Board of Directors of the Southeast Women's Employment Coalition and Executive Director of the Coal Employment Project, which has been working since 1977 to secure well-paying jobs for women in the coal mining industry; Vikki Gregory, Co-Director of the Women's Work Force at Wider Opportunities for Women, a pioneer in the effort to secure nontraditional skilled labor jobs for women; Jackie Ruff, Executive Director of District 925, a union for office workers founded jointly by 925 and the Service Employees International Union (SEIU). SEIU represents over 60,000 office workers and over 400,000 women workers; Cathy O'Reilly Collette, Coordinator of Women's Activities at the American Federation of State, County and Municipal Employees AFSCME), which represents

400,000 women in public sector jobs; and Joy Ann Grune, Executive Director of the National Committee on Pay Equity, a national coalition that serves as a clearinghouse as well as an advocate for pay equity for women.

The LWVUS is a volunteer citizen education and political action organization made up of more than 1,300 state and local Leagues in all 50 states, the District of Columbia, Puerto Rico and the Virgin Islands. From its inception in 1920, the League, as you no doubt know, has had a deep commitment to providing equal access to employmen and combating discrimination wherever it may exist. In addition, the League has also been concerned about the plight of our nation's poor--a concern that has heightened as budget cuts of the past two years have put a tighter squeeze on the poor--and particularly the working poor.

Senator Quayle, we are grateful that you have started off the new year by convening these hearings on what is clearly the most critical domestic problem facing this country today--the devastating unemployment that has touched over 11 million workers, resulting in the highest unemployment rate since the days of the Great Depression--10.8% at the end of 1982. We sincerely hope that this interest on your part can be translated into effective and immediate action by Congress that will help put Americans--women and men--back to work.

While the unemployment crisis has affected all segments of the population--black, white, hispanic, asian, young, middle-aged, old, blue-collar and white-collar, college-educated and high-school dropouts, those of us sitting here at this moment would like to focus on just one segment that has been affected--women.

We want to emphatically state that it is time for the federal government to recognize that the American labor force is comprised of both working men and working women. And that the unemployment crisis that this country faces today is a crisis for both men and women. With this recognition must come federal programs and policies that will put all Americans back to work.

Senator, please bear with me while I run through a few statistics that dramatically illustrate the employment picture for women in America today.

In September 1982, over 48 million women, 16 years and over, were in the labor force. This represents approximately 43% of all workers in the labor force. The labor force participation rate of women has doubled since 1960. On the other side of the coin, 9.5% of women were unemployed as of November, with the figure approaching 50% for young, black women.

Women are still concentrated in traditional, low-paying, dead-end jobs. In 1978, two of every three working women held traditionally "female" jobs, 21.6% held jobs that were not sex stereotyped, and only 9.9% held traditionally "male" jobs. In 1981, women were 80% of all clerical workers, 63% of all retail sales workers, 70% of all teachers at the elementary and secondary levels, 89% of all health service workers, 62% of all service workers, and 97% of all registered nurses. At the same time, women were only 4% of all engineers, 14% of all doctors and lawyers, 7% of workers in the heavy construction industries, 1.25% of coal miners, 2% of all carpenters and 1% of all truck drivers.

Women continue to earn only $.59 for every $1 earned by men. This is a decrease from $.64 in 1955. In 1981, women workers with four or more years of college education earned approximately the same income as men who had only one to three years of high school, $12,085 and $11,936, respectively, while women high school graduates earned less than men who had not completed elementary school.

Women work for the same reason men do--economic necessity. Twenty-five percent of women in the labor force in March 1982 were single, 5% were widowed, 15% were divorced or separated, and 21% had husbands whose earnings in 1981 were less than $15,000.

A growing proportion of American families are headed by women--16% in 1982 as compared with 12% in 1972. However, for minority women the figure is even higher: 41% of all black families and 23% of all families of Spanish origin. Unfortunately, almost one in three female-headed families lives in poverty today, as contrasted to one in 18 headed by a man. But 51% of black female-headed households live in poverty, as do 60% of households headed by young women ages 15-24. Three-fourths of the elderly poor are women. Almost half of all elderly minority women live in poverty. It is dismal statistics such as these that have forced us to face the reality of the "feminization of poverty" in our country today.

With more women in the work force, the need for child care is more acute than ever. Forty-six percent of all children under the age of six have mothers in the labor force. It is estimated that by 1990, approximately one-half of all preschool children will have mothers in the labor force.

I think you will agree that these figures vividly demonstrate that working women are a fact of life in America today, and that their needs can no longer be overlooked in planning for the economic needs of our country.

We are gravely concerned about the severe unemployment problem that exists in America today. We are concerned about plant closings that create displaced workers, about automation that frequently eliminates the lowest jobs on the employment ladder--jobs that are frequently held by women. We are concerned about the structural unemployment caused by a lack of job training for young people. And we are concerned about pay equity for women--those women who are fortunate enough to have jobs, but whose worth is often undervalued, so that they are unable to earn a living wage.

There are already major laws on the books--The Equal Pay Act of 1963, Title VII of the Civil Rights Act of 1964, and Executive Order 11246, that are designed to eliminate employment discrimination against women. All of these tools can be effective, when they are rigorously enforced. While I do not wish to dwell on this point, we are deeply concerned about this Administration's failure to vigorously enforce these laws.

Thus, women really face two obstacles in pursuit of employment opportunities: 1) the traditional, but totally inaccurate concept that unemployment is not really a women's problem because women don't really need to work, and 2) a federal government that has abdicated virtually all of its responsibility for eradicating employment discrimination.

We therefore want Congress to make it perfectly clear in passing any new jobs legislation, that policies of nondiscrimination and affirmative action must be effectively enforced, and that women will have equal access to all jobs created by new employment policies.

We also believe that it is incumbent upon the federal government to get its own house in order. Traditionally, the federal government has been a leader in promoting women to high level jobs. Unfortunately, the past two years have represented a sharp reversal from these policies. Reductions-in-force have hit women and minorities the hardest, and although there has been a great deal of publicity about the impact of RIFs, Congress has shown a surprising lack of concern. Since it is the federal government that sets the tone for all employment policies in the country, we believe that this callous disregard for the impact of RIFs on women workers should not go unchallenged. We might also add that Congress has failed to extend antidiscrimination rules to cover itself and its employees, something we would urge it to do (as we so testified in 1978).

Aside from civil rights enforcement, we believe that recent federal employment policies--with few exceptions--have failed to recognize the very real needs of working women.

For example, the Work Incentive Program, or WIN,--an employment strategy for welfare recipients--has traditionally been used to place women in low paying, dead-end jobs. In the early days of the program, male welfare recipients were given preference for available slots in the program. While this practice was eventually eliminated by court order, traditional job placement patterns continue. We believe however, that the basic structure and goals of the WIN program are sound, and that it can be an effective means of servicing the employment needs of women who receive income assistance. However, the program needs more financial resources, as well as a change in focus, e.g., to make a concerted effort to place women in higher paying, nontraditional jobs.

Women have been active participants in the Comprehensive Employment and Training Act (CETA) program. However, it was not until the 1978 amendments were passed by Congress, that substantial efforts were made to train and place women in nontraditional jobs. We therefore hope that the provisions of the new Job Training Partnership Act (JTPA) that target training to women receiving income assistance will meet with the same success as did the provisions of CETA that targeted economically disadvantaged women.

With respect to dislocated workers, we are pleased that the job training act has a section that addresses this segment of the population. But we would like to emphasize that women are also suffering the dire consequences of displacement. It is often easy to overlook the displaced female worker, because the image that typically comes to mind with displacement is a closed factory and long unemployment lines filled with men.

However, displacement is occurring in other sectors of the economy as well. There are large numbers of displaced mental health workers--largely female--due to the trend of deinstitutionalization combined with budget cuts in social service programs. There is displacement in the banking industry. As electronic money transfer systems proliferate, bank tellers--again predominantly women--face the loss of their jobs. And there has been displacement in the telecommunications industry. With increased automation, there has been a decrease in the number of telephone operators--once again mostly women. It is imperative that job displacement be recognized for what it is--an extreme hardship for both men and women. Job training for displaced workers must extend to displaced female workers as well as to men.

We are concerned that adoption of a subminimum wage could have an adverse impact on women workers. A subminimum wage, designed to provide jobs for teenagers, would displace female workers, those at the bottom of the jobs ladder who are currently working at the minimum wage level, with even lower paid teenagers. Such a situation would serve only to exacerbate the unemployment problem that women face today. Likewise, we are concerned about the lack of job training and pay equity associated with workfare programs. We do not view workfare as an acceptable employment option for women.

With an economy that is moving quickly toward a complex, highly technical job structure, it is critical that any jobs creation strategies target these industries, both for training and for jobs. As both men and women are equally unprepared for these jobs, there is a wonderful opportunity for women to get in on the ground floor. And with new jobs comes an opportunity to create a new wage structure--one that fully acknowledges the contribution that women workers make. It is an opportunity to implement pay equity, without upsetting a preexisting wage structure, which is so often the argument raised against pay equity today. Finally, it is an opportunity to ensure that low level jobs will have training and upward mobility options connected to them.

SPECIFIC PROPOSALS FOR ACTION

We urge Congress to take immediate and effective action to put America back to work. We know that you will be examining many employment proposals in the next few months. The development of a new jobs package presents an opportunity to avoid the problems of the old programs and to eliminate the stereotyped and outmoded images of women workers. Any proposal given serious attention by Congress must ensure employment equity for women. In order to achieve this goal, we believe that any employment proposal should contain the following:

1.) Nondiscrimination and affirmative action provisions consistent with Title VII, the Equal Pay Act and Executive Order 11246, and they should be enforced. If any jobs are to be created by an act of Congress, then women must receive their fair share of such jobs. It is incumbent, therefore, that any such legislation ensure access to nontraditional jobs for women, as well as to more traditional jobs that women are already trained for. This country cannot afford to pass more legislation like the recently enacted federal gas tax increase. Few of the jobs created by that act will go to women. As the figures I presented earlier sharply demonstrate--those jobs have for the most part been unavailable to women, and the gas tax bill contains no incentives to hire women for those jobs. I refer you to a recent editorial column by Ellen Goodman, the noted Boston Globe columnist, a copy of which is attached to our testimony. She says very eloquently that the gas tax bill will do nothing for the millions of unemployed women workers in the country.

2.) Provisions for occupational development, upward mobility, development of new careers for women, and for overcoming sex stereotyping.

3.) Provisions for the creation of public sector jobs, with equal pay and benefits for women. At the same time, there must be safeguards to protect against the displacement of public employees, so that they do not lose their jobs to those hired under any public employment schemes.

4.) Provisions for the development of alternative work schedules, including flex time, part-time and at-home work and experimentation with such programs as short-time compensation. However, alternative work schedules should not be implemented without adherence to collective bargaining agreements and fair labor standards, and should include bilateral implementation by union and management.

5.) Provisions for the expansion of resources for child care. Women must have child care if they are to go to work. We are pleased that the Tax Equity and Fiscal Responsibility Act of 1982 passed by Congress last summer includes incentives for employer-operated child care centers. While a step in the right direction, it is simply not enough. While Congress hath given with the right hand, it hath taken away with the left, by reducing funding for the social services block grant that subsidize child care for low income persons. Child care must be available and it must be affordable, because if it is not affordable, then it simply is not available.

6.) Provisions that will ensure pay equity for women workers. We cannot stress too strongly the need for pay equity. Women, like men, must earn a living wage if they are to support themselves and their families. The fact is that for many men, a job is all that is needed to propel him out of poverty. However, for women, this is so often not the case, because wages for traditional women's work are so low. Many women who work full time still qualify for food stamps and/or income assistance. We therefore urge that any employment legislation considered by Congress include pay equity--or equal pay for work of comparable value--as a component.

We cannot overestimate the value of traditional women's jobs to society. Many of the jobs that were eliminated when the public service component of CETA was abolished were jobs in child care centers, centers for the elderly, meals on wheels programs, displaced homemaker programs and domestic violence shelters. These programs provide invaluable services for our society. Many women are trained to perform these jobs, and would be eager to work in such facilities. Caring for the needs of our people is every bit as important as caring for the needs of our roads, bridges and sewers. We therefore urge Congress to consider the needs of the American people when it thinks about jobs legislation.

The employment needs of women are complex and are not easily detailed in a short presentation such as this one. Therefore Senator Quayle, we urge you to set aside a full day of hearings on this one subject alone. The groups represented here and many others have joined together to work on specific proposals for women's employment. We would be happy to share those proposals with you at a later date. Additional hearings would provide a good opportunity to do so.

In closing, I would simply like to say that women must have the opportunity to perform all jobs in the American economy. For this to happen, the true value of the jobs that most women perform--those that provide vital services and maintain our social and human infrastructure--must be recognized. It is the responsibility of the federal government to ensure that this dream becomes a reality. Only then will the government be meeting its responsibility to "promote the general welfare" for all of its citizens. I thank you and the members of this panel and I would be pleased to answer any questions that you might have.

Taken From The "Washington Post" December 24, 1982

Ellen Goodman

Women: The Unnoticed Unemployed

BOSTON—As Congress quarreled its way to a conclusion, the fate of assorted jobs bills rose and fell like a barometer in a political storm system.

For a fortnight, the economists and politicians discussed every detail of their bills: make-work and real work, the private sector and public works, the cost of unemployment and the cost of government programs. But hardly a word was heard about one odd little secret. All these job bills were actually "men's job bills."

The basic fact skewing these plans is that 98.3 percent of construction workers in this country are male. So when Congress talked about funding jobs to repair highways and bridges and mass transit, it was really talking about funding male jobs. When it wrangled over the gas tax, it was over raising money that would eventually pay the wages of skilled male labor.

There is nothing wrong with supporting jobs for men. Nor is there anything wrong with improving our highways. Women's axles also go bump in the night.

But we're in hard times, and in hard times we talk about putting the breadwinners back to work and think of breadwinners as men. In hard times it's just too easy for unemployed women to become invisible.

Harvard historian Susan Ware, who has written about the fate of American women in the 1930s, says: "I keep sitting here being struck again and again by the parallels with the Depression. This is exactly what happened in the 1930s. They helped the men and forgot that women were also unemployed, only they were in different jobs."

During the Depression years, somewhere between 2 million and 4 million women were unemployed. Too many of them faded into the wallpaper. As Ware points out in her book, "Holding Their Own," the female unemployed, laid off one by one rather than in massive factory shifts, were not seen in bread lines or flophouses.

No one noticed them. Some became "housewives," 145,000 or more became homeless wanderers, and still others shut themselves in rooms until their money and food ran out.

When the Roosevelt administration set up the first jobs program, it was also for large-scale construction work and public projects. It was up to the women in the New Deal, especially Eleanor Roosevelt, to remind the men that women, too, needed work.

Even so, only 300,000 of the 4 million people at work for the Civilian Works Administration in January of 1934 were women. Of all the workers in the WPA, only 13 to 19 percent were women, and over half of them worked in sewing rooms. For most of its existence, the Civilian Conservation Corps for unemployed youth was limited by law to men.

At the same time, the attitudes toward working married women turned sour, even hostile. In 1936, when George Gallup asked the American public whether wives of working men should hold jobs, 82 percent said no. By 1939, 77 percent of the schools, 84 percent of the insurance companies and 65 percent of the banks had restrictions on married women working.

You don't have to be clairvoyant, you don't even have to be a historian, to feel this happening again.

Today the television cameras shoot film outside the factories where a hundred men are being laid off, rather than outside the smaller businesses where women lose work one by one. The president suggests that it's not the recession causing a rise in unemployment but the increase of so many women in the marketplace.

Stories begin to appear about husbands who have lost jobs while wives have not, as if the economy were engaged in some giant role reversal. Few remind us that the unemployment rate among men is only one point higher than among women. Still fewer remind us that now, as in the '30s, women retain jobs only when (and because) they work in the low-paid female job ghettos where men do not apply.

Finally the Congress begins to think about jobs . . . for men.

I am not trying to suggest that men and women should become competitors for jobs. We're too interdependent for that. A jobs program for men also helps the bulk of women who live in families where men are the higher wage-earners.

Similarly, at a time when 52 percent of the women in this country work, when one out of six families is being maintained by women, when the bulk of young families depend on two workers to survive, it just won't do to forget about women.

It took decades for the women who work to become visible. Now we have to "see" the women who are out of work.

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WOMEN AND EMPLOYMENT

THE FACTS:

- *47.7 MILLION WOMEN--43% OF ALL WORKERS--WERE IN THE LABOR FORCE IN JUNE 1982.*
- *WOMEN EARN ONLY $.59 FOR EVERY $1 MEN EARN--DOWN FROM $.64 FOR EVERY $1 IN 1955.*
- *WOMEN WORK FOR THE SAME REASON MEN WORK--ECONOMIC NECESSITY.*
- *TWO-THIRDS OF ALL WOMEN WORK AT LOW-PAYING, TRADITIONALLY 'FEMALE' JOBS.*
- *ONE IN EVERY THREE FEMALE-HEADED FAMILIES IS LIVING IN POVERTY.*
- *NEARLY 10% OF ALL WORKING WOMEN ARE CURRENTLY UNEMPLOYED.*
- *MORE THAN HALF OF BLACK FEMALE-HEADED HOUSEHOLDS LIVE IN POVERTY.*
- *YOUNG MINORITY WOMEN HAVE AN UNEMPLOYMENT RATE OF nearly 50%.*

WOMEN: A Growing Presence in the U.S. Labor Force

-- 47.7 million women were in the labor force in June 1982--compared with 37.4 million in 1975 and 23.3 million in 1960.
-- 62% of all women ages 18-64 were in the labor force in 1981.
-- Women were 43% of all workers in 1981.

WOMEN: Still Concentrated in Traditional, Low-paying, Deadend Jobs

-- In 1978, 2 of every 3 working women held traditionally 'female' jobs; 21.6% held jobs that were not sex stereotyped, and only 9.9% held traditionally 'male' jobs.
-- In 1981 women were
80% of all clericals
63% of all retail sales workers
70% of all teachers
89% of all health service workers
62% of all service workers
97% of all registered nurses

But were only

4% of all engineers
14% of all doctors
14% of all lawyers
7% of all workers in heavy construction
1.25% of all workers in coal mining
2% of all carpenters
1% of all truck drivers

WOMEN: Their Work Still Undervalued

-- Women earn only $.59 for every $1 earned by men--down from $.64 in 1955.
-- Women workers with 4 or more years of college education earned in 1981 roughly the same income as men who had only 1-3 years of high school--$12,085 and $11,936, respectively.
-- Women high school graduates who work full time earned less than fully employed men who have not completed elementary school, $12,332 as compared with $12,866 for men.

WOMEN: Working Out of Economic Need

-- 25% of women in the labor force in March 1982 were single.
-- 5% were widowed.
-- 15% were divorced or separated.
-- 21% had husbands whose earnings in 1981 were less than $15,000.
-- 16% of all families were maintained by women in 1982 compared with 12% in 1972.
-- 41% of all black families and 23% of all families of Spanish origin were maintained by women in 1982.

WOMEN: Already Poor and Getting Poorer

-- Almost 1 in 3 female-headed families is poor as compared with only 1 in 18 male-headed families (1978).
-- 51% of black female-headed households live in poverty.
-- 60% of all households headed by women 15-24 are in poverty.
-- Three-fourths of the elderly poor are women; almost half of all elderly minority women live in poverty.

WOMEN: More in Need of Quality Dependent Care than Ever Before

-- 55% of children under the age of 18 (32 million) had working mothers in 1982.
-- 46% of all children under the age of 6 (8.5 million) had mothers in the labor force.
-- 42% of all mothers with children under the age of 3 are in the workforce.
-- 54% of mothers with children between the ages of 3 and 5 are in the workforce.
-- By 1990, about 1/2 of all preschool children (11.5 million) will have mothers in the labor force, as will about 17.2 million (60%) of all school-age children.

WOMEN: The Unemployed

-- In 1982, 9.5% of all women were unemployed. This equals 4.7 million women--up 1 million from those unemployed in 1981.
-- 21.9% of all women ages 16 - 19 are unemployed, but for young, black women, the figure is closer to 50%.
-- The unemployment rate for female heads of household is 12%.

SOURCES:

"20 Facts on Women Workers," U.S. Department of Labor, Women's Bureau, 1982

"The Female-Male Earnings Gap: A Review of Employment and Earnings Issues," U.S. Department of Labor, Bureau of Labor Statistics, 1982

"12th Annual Report of the National Advisory Council on Economic Opportunity," August 1980

A Children's Defense Budget: An Analysis of the President's Budget and Children, Children's Defense Fund, 1982.

Prepared by: Nancy Reder, League of Women Voters Education Fund (202) 429-1965
Andrea Di Lorenzo, National Education Association (202) 822-7300

CALL TO ACTION FOR JOBS FOR WOMEN

The undersigned organizations express grave concern about the most critical domestic problem facing this country today--the devastating unemployment that has touched over 11 million workers, resulting in the highest unemployment rate since the days of the Great Depression--10.8% at the end of December.

The Federal government must recognize that the American labor force is comprised of both working men and working women. It is the only institution that can fulfill the national goal of ensuring an economy that will provide useful employment for those able, willing, and seeking employment. When Congress passed the Employment Act of 1946, the nation's first major post-war employment initiative, full employment was viewed in the context of jobs for white, male heads of households.

However, this traditional view does not reflect today's reality. Today, we recognize that heads of households are not just white men; they are also women and minorities. The most dramatic change in the American labor force in the past decade has been the increase in the number of women working outside of the home. Forty-three percent of the American labor force is now comprised of women. Two-thirds of these working women are single, widowed, divorced or separated or have husbands who earn less than $15,000 a year. American women, like American men, work out of economic necessity: to support themselves and their families.

Women have doubled their numbers in the workforce in the last twenty years. By 1990, women are expected to comprise more than half of all our nation's workers. Women are, however, concentrated in a small number of low-paid predominantly female occupations. Eighty percent of all women work in only twenty-five of the 420 occupations listed by the US Department of Labor. In 1955, an average, full-time woman worker earned 64 cents for every dollar a man earned. Today, she earns only 59 cents.

Discrimination has perpetuated this earning disparity between men and women. As a result of this wage gap, women are faced with continued job ghettoization and society's devaluation of jobs performed by women. Despite passage of the Equal Pay Act in 1963, the Civil Rights Act in 1964, and the Age Discrimination and Employment Act of 1965, women are still the victims of discrimination in all aspects of employment.

Discrimination has been the chief contributor to the change in the make-up of poverty in America. With more and more women living in poverty, the feminization of poverty continues to grow. Fully one third of the 9 million families headed by women rely on welfare to meet their basic needs. Sixty percent of these impoverished women first went on the welfare rolls as teenagers.

Women must no longer be subjected to employment discrimination of any kind but must have the opportunity to perform all jobs in the American economy. For this to happen, the true value of the jobs which most women perform--those which provide vital services and maintain our social infrastructure--must be recognized. It is the responsibility of the Federal government to ensure this. Only then will the government be meeting its responsibility to all its citizens.

To fulfill its mandate to promote employment opportunities for its citizens, the government will by necessity be considering a variety of employment initiatives. In doing this, we call upon Congress to enact employment legislation that provides equal employment opportunities for women.

Senator **QUAYLE**. Thank you very much.

I appreciate your comprehensive statement.

I wonder if you would highlight, and maybe each member of the panel would comment on, the single most important thing we can do for women in looking at jobs creation. Is there one particular area or one particular thing that stands out as being of more importance? On a substantive basis, regarding employment opportunities for women, what should we keep in mind as we traverse the road of jobs creation in the economy we are now facing?

Ms. **NEUMAN**. From my point of view, strengthening the enforcement of antidiscrimination laws and strengthening affirmative action is basic to any jobs program, whether old or new.

Senator **QUAYLE**. Ms Gregory?

Ms. **GREGORY**. Well, you know, from the program operator's perspective, the real need for women is to be able to have access to those jobs. That in itself is a complex question. Access means not only being able to walk through the door and apply for that job and get in and do the job and be paid at the same level that men are paid, but it also means the ability of the women to have access to the skills that are needed to get many of those jobs. So I think you are also talking about training.

I came here today to really just make one quick statement, if I may, and that is that in the development of any kind of job creation strategy, that you cannot look—you cannot view it in a vacuum. You have to look at the public works sector and you also have to look at the whole change within the work force, that the labor market is moving from a heavy industrial base into a more high-technological job market. I think that with that in mind, that you have to look at training, at giving women equitable access to both jobs and training.

Senator **QUAYLE**. Ms. Palast?

Ms. **PALAST**. I have to concur with the two speakers prior to myself. I think the word "discrimination," if you want to look at one thing, is the thing you have to focus on most directly. It is really then analyzing discrimination in all its aspects. Certainly, the most blatant discrimination covered by the various civil rights acts need to be enforced and we have to assure that women get their share of the nontraditional work and get their skills

The other thing is almost implicit discrimination in our view of what work is, which is that this term "leaf raking" somehow applies to everything that is not filling a pothole and putting up a board, but that in fact in order for women to work, we do need day-care centers—in fact, in order for men to work, we need day-care centers, because somebody has to take care of those children, and then both women and men contribute to the income. The health care system is in dire need of restructure and suffering from massive inflation, and creating home health services and services for the elderly contributes to dealing with those kinds of problems.

So when we look at what is job creation, we have to eliminate our own discrimination and own biased attitudes in what is appropriate in contributing and what is not.

We have to look at the service sector and the public sector, and I think finally, the point that Nancy made about the development of new industry, it really does give us a blank slate. We can go in and say to people whose only job is to push buttons that they do not have to be paid differently.

Senator QUAYLE. Ms. Collette?

Ms. COLLETTE. I believe it is clear that Congress has been systematically cutting Federal programs, and this has had a disastrous effect on women. I think that the affirmative action programs mentioned so far are absolutely vital. But another thing would be that women and children nutrition programs and food stamp programs and things such as that are—because women are poorer than men in our society, benefit women. Women also administer those programs. So those kinds of cutbacks are absolutely devastating to women and have been all along and I would urge any job creation programs enacted take that into consideration and try to replace those kinds of vital services.

Senator QUAYLE. Ms. Grune?

Ms. GRUNE. I would like to make two points:

No. 1, I think there is a population interpretation about the pattern of employment, that (a) since a great deal of unemployment is caused by the collapse of basic industry in this country and, (b) since most women work in the most rapidly growing sectors of the economy, meaning the service sectors, that therefore unemployment is basically a male and not a female problem. That is certainly not the case and I think the testimony presented gave many explanations to combat a simple interpretation of what the sources of employment are today.

No. 2, I would like to make a quick statement about pay equity.

One of the oldest and most persistent symptoms of sexual inequality is the wage gap between women and men. In spite of enormous political changes, demographic and legal changes since at least over the last 30 or 40 years, the wage gap has not declined. It has remained the same. We have to introduce wage equity in jobs that already exist and also in the creation of new job opportunities. That is an excellent opportunity to investigate the wage-setting process, to create wages which are equitable without disrupting existing systems.

Thank you.

Senator QUAYLE. Ladies, thank you very much. I appreciate your testimony. We will be working with you as we go toward job creation and see what we can do.

That concludes the hearings for today. As I said earlier, we will reconvene on February 15, I believe at 10 o'clock—either 9:30 or 10 o'clock—with Martin Feldstein and the administration.

The committee is in adjournment.

[Whereupon, at 1:47 p.m., the subcommittee adjourned.]

APPENDIX

STATEMENTS SUBMITTED FOR THE RECORD AND ADDITIONAL INFORMATION

Chamber of Commerce of the United States, Statement on Job creation, for the Subcommittee on Employment and Productivity, Committee on Labor and Human Resources, January 1983.

Indian and Native American Employment and Training Coalition, Statement prepared for the Subcommittee on Employment and Productivity, January 1983.

Strategies for Assisting the Unemployed, Congressional Budget Office, December 1982.

Recessionary Labor Market Changes and Remedial Programs, Dennis M. Roth, Congressional Research Service, Library of Congress, July 1980.

"Highlights from Public Works as Countercyclical Assistance," Office of Management and Budget, From Public Works as a Countercyclical Tool, Hearing, U.S. Joint Economic Committee, pp. 72-86, June 1980.

Budgeting for Capital Infrastructure: Which Level of Government?, Lawrence W. Hush, Fiscal Economist, December 1982.

"Are Wage and Training Subsidies Cost-Effective?--Some Evidence from the New Jobs Tax Credit," New England Economic Review, Robert Tannenwald, Economist, pp. 25-34, September-October 1982.

Federal Job Creation Programs, Robert Guttman, Congressional Research Service, Library of Congress, June 1977.

A Brief History of Work Relief Programs during the Depression, Ann Allman, Congressional Research Service, Library of Congress, January 1975.

"Employment Status of the Noninstitutional Population, 1929 to 1947," (Table), Employment and Earnings, Bureau of Labor Statistics, U.S. Department of Labor, Vol. 30, No. 1, P. 140, January 1983.

CHAMBER OF COMMERCE
OF THE
UNITED STATES OF AMERICA

HILTON DAVIS
VICE PRESIDENT
LEGISLATIVE AND POLITICAL AFFAIRS

1615 H STREET, N.W.
WASHINGTON, D.C. 20062
202/659-6140

January 20, 1983

The Honorable Dan Quayle, Chairman
Subcommittee on Employment and
Productivity
Committee on Labor and Human Resources
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

Enclosed is the statement of the Chamber of Commerce of the United States on "Job Creation."

It includes our recommendations on policy to be pursued and actions to be taken to achieve and sustain economic recovery and growth with the goal of achieving high employment levels in the 1980s.

I respectfully request that the statement be included in the record of your hearings.

Cordially,

Hilton Davis

Hilton Davis

Enclosure

cc: Committee members
Robert M. Guttman, Counsel
Luther Washington, Minority Staff

LET'S REBUILD, AMERICA
IN THE 80's

Statement of the Chamber of Commerce of the United States

ON: JOB CREATION

TO: SUBCOMMITTEE ON EMPLOYMENT AND PRODUCTIVITY
OF THE SENATE COMMITTEE ON LABOR AND
HUMAN RESOURCES

BY: MADELEINE B. HEMMINGS

DATE: JANUARY 21, 1983

The Chamber's mission is to advance human progress through an economic,
political and social system based on individual freedom,
incentive, initiative, opportunity and responsibility.

The Chamber of Commerce of the United States is the largest federation of business and professional organizations in the world, and is the principal spokesman for the American business community. The U.S. Chamber represents more than 237,000 members, of which more than 233,000 are business firms, more than 2,700 are state and local chambers of commerce, and more than 1,200 are trade and professional associations.

More than 85 percent of the Chamber's members are small business firms having fewer than 100 employees. Yet, virtually all of the nation's largest industrial and business concerns are also active members. We are particularly cognizant of the problems of smaller businesses, as well as issues facing the business community at large.

Besides representing a cross section of the American business community in terms of number of employees, the U.S. Chamber represents a wide management spectrum by type of business and location. Each major classification of American business -- manufacturing, retailing, services, construction, wholesaling, and finance -- numbers more than 15,000 members in the U.S. Chamber. Yet no one group constitutes as much as 23 percent of the total Chamber membership. Further, the Chamber has substantial membership in all 50 states.

STATEMENT
on
JOB CREATION
for submission to the
SUBCOMMITTEE ON EMPLOYMENT AND PRODUCTIVITY
of the
SENATE COMMITTEE ON LABOR AND HUMAN RESOURCES
for the
CHAMBER OF COMMERCE OF THE UNITED STATES
by
Madeleine B. Hemmings*
January 21, 1983

The U.S. Chamber welcomes this opportunity to discuss its recommendations to relieve the hardship caused by current unemployment levels.

The Chamber of Commerce of the United States is committed to the encouragement of sound policies which will promote high levels of employment. Current levels of unemployment, both cyclical and structural, must be reduced. Economic recovery from the back-to-back recessions and sustained economic growth will eliminate cyclical unemployment. Additional measures, other than economic stimulus, will be needed to reduce structural unemployment without increasing inflation.

THE CURRENT EMPLOYMENT PICTURE (December, 1982)

The population of the United States was 232.6 million in December, 1982.

The civilian labor force totaled 111.1 million, up 2.1 million from December, 1981. This represents 64.2 percent of the adult population 16 years of age and older. It excludes members of the armed forces and persons institutionalized in hospitals, nursing homes and prisons.

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*Committee Executive, Education, Employment and Training Committee, Chamber of Commerce of the United States.

Total employment was 99.1 million. Just over 12 million were unemployed, or 10.8 percent of the civilian labor force.

During the past year, the increased unemployment of 2.6 million was caused principally by the 2.1 million new entrants into the labor force and a shift in employment which resulted in a loss of an estimated 1.7 million blue collar jobs while employment continued to rise for white collar and service workers.

It is estimated that some 40 percent of current unemployment is cyclical, specifically caused by the recession and reduced economic activity. The remainder is frictional unemployment, including persons who voluntarily quit their jobs, and structural unemployment, including the disadvantaged who lack sufficient skills and the displaced who lost their jobs because of changing technology.

About 40 percent of the unemployed are under age 25. Teenagers represent 17% of the unemployed, and about half of the unemployed teenagers seek only part-time jobs.

THE LAST MAJOR RECESSION (November 1973 - March 1975)

In the last major recession, employment bottomed out at 85.2 million in March, 1975. In the first two years of recovery, employment increased to 90.8 million by March of 1977. This was an increase of 5.6 million jobs or an average increase of 234,000 jobs per month.

By May of 1981, employment had risen to over 101 million, an increase of 15.9 million jobs in a little over six years.

JOBS NEEDED IN THE EIGHTIES (1983 - 1989)

To achieve high levels of employment in the 1980s, three problems must be solved.

First, the cyclical bulge in unemployment caused by the recession, which involves up to 5 million jobs, must be eliminated by economic recovery.

Second, jobs must be found for entrants into the labor force. The increase in the labor force is expected to average about 1.6 percent for the 1980s, or anywhere from a net increase of 1.5 million to 1.8 million additional job seekers a year. This increase will not be as great as in the 1970s, when the post World War II baby boom swelled the numbers. However, it is obvious that sustained economic recovery will be needed to provide for the continually growing labor force.

Third, the structurally unemployed must be helped. The disadvantaged, most often young persons who lack sufficient job skills to be hired, must be offered training opportunities. Mature and skilled workers who have permanently lost jobs in declining industries need counseling and retraining for new careers.

Overall, a better trained, highly motivated and self-disciplined labor force will be needed as the economy continues the shift from an industrial to a high technology base.

All told, some 16 million or more jobs will be needed in the next seven years. The statistics on the recovery from the 1974 recession indicate that such job creation is achievable. The major challenge is to accomplish this through sound economic recovery and growth without increasing inflation.

THE WRONG SOLUTION

Unemployment always lags the business cycle and is worse when recovery is imminent. In such periods, when pessimism is extreme, proposals for public works programs to create jobs are always made. The idea is that the federal government should hire the unemployed temporarily for make-work jobs.

These schemes are always "too little and too late," since they never get fully started until recovery has arrived. Furthermore, current proposals would only increase the federal deficit at a time when it needs to be reduced. Studies and testimony by the Congressional Budget Office support these conclusions.

Current proposals would add four or five billion dollars to the deficit with the promise that they will create 200,000 or 300,000 temporary jobs. Actually, the statistics from the 1974 recession show that this many jobs are created in a month or two once economic recovery gets rolling.

ACTION NEEDED

To assure high levels of employment in the 1980s, economic recovery from the current recession and sustained economic growth are needed. The U.S. Chamber believes that achieving these goals requires unwavering support of the following fundamental policy objectives:

- o Reduce personal and business taxes to stimulate saving, investment, work effort, and productivity.
- o Reduce the growth of federal spending and entitlement programs.
- o Reduce the burden of federal regulations.
- o Encourage a moderate and steady monetary policy.
- o Realize optimum agricultural and industrial production by aggressively trading in world markets.

The attached Exhibit details several dozen specific actions supported by the U.S. Chamber that are consistent with these goals and which will further stimulate economic recovery and growth. These proposals require both legislative and regulatory action. In many cases, they call for the removal of federal impediments to a sustained economic recovery. If adopted, they would significantly accelerate permanent job creation in the private sector.

Pursuit of these general goals and specific actions will eliminate the cyclical bulge in unemployment and provide the jobs needed for new entrants into the workforce in the 1980s.

Beyond this, the disadvantaged and displaced who are the structurally unemployed must be aided. The new Job Training Partnership Act will help these people, as should the numerous federal displaced worker programs and the services of the U.S. and state employment offices.

CONCLUSION

The foundation for an enduring economic recovery has been created in the past two years. Remarkable success has been achieved in reducing double digit inflation. Interest rates have fallen dramatically. Excessive tax rates have been curbed. Counterproductive government regulations have been better controlled. While more needs to be done in each of these areas, the progress to date has been substantial.

Now we are poised at the beginning of recovery, and the benefits of such recovery are imminent. Adherence to the policies and action steps outlined above and on the Exhibit will assure a sound economic recovery and continued economic growth. This will relieve the hardship of current unemployment levels and lead to high employment in the 1980s.

EXHIBIT

COMPREHENSIVE PROGRAM ON UNEMPLOYMENT PROBLEMS

General Area	Actions Needed	Type of Action Needed	Rationale for Action	Potential Benefits
Clean Air Act: Construction Ban	Eliminate the sanction that prohibits new industrial construction and major modifications regardless of a facility's ability to improve air quality.	Legislative	The "construction ban" prohibits industry from expanding or modernizing because air quality of the area is not up to national standards, even though the project may use more up-to-date pollution controls, and provide a net reduction of emissions.	The Chamber conservatively estimates that several billion dollars worth of proposed new or modified industrial construction is being currently forestalled by the construction ban. Hence, the estimated number of jobs that would be created by elimination of the construction ban is between 100,000 and 300,000.
Coal Slurry Pipelines	Grant eminent domain to coal slurry pipelines.	Legislative	Increased competition, resulting in lower transportation costs to increase use and export of coal. Keep coal, hence electric power, economical.	Jobs - 46,000 construction, 100,000 manufacturing, 5,000 operations. (Source: Alliance for Coal and Competitive Transportation)
Community Development/ Urban Renewal	Enterprise Zones	Legislative	Free enterprise approach to urban development.	Experiment to increase jobs in depressed areas.

General Area	Actions Needed	Type of Action Needed	Rationale for Action	Potential Benefits
Education	Reauthorize the Vocational Education Act so that federal dollars are used as incentives for the voc-ed system to make its program directly respond to specific employer needs - including initial training of young people and retraining of a mature workforce.	Legislative	To make better use of a $6.5 billion annual investment - which cannot now be shown to make a significant difference in earnings for students who complete secondary voc-ed and those who complete the general education curriculum. (Same is not true at the post-secondary level.)	Reduced unemployment among youth - now 18%, and 47% for minorities - by providing them with job skills that are compatible with present and future industry needs.
Employment	Reorganize the U.S. Job Service to make it a state system with a small federally run interstate system. Require that the Service's primary mission be job placement assistance to (1) those drawing unemployment insurance benefits and (2) other unemployed people.	Legislative	The Employment Service now spends $1 billion a year. There is general agreement that it does not efficiently help those who need jobs, who are drawing unemployment benefits and other income transfer payments. A major organizational and management overhaul could greatly increase services to the unemployed and reduce the length of time people draw income transfer payments.	More effective job placement.

General Area	Actions Needed	Type of Action Needed	Rationale for Action	Potential Benefits
Energy	Reform licensing process for nuclear plants.	Legislative	Eliminate duplicative regulations. Action could reduce licensing time by 6 years, assuring the continued development of nuclear power.	New direct jobs potential is 2,000 to 5,000 per reactor built. Each reactor operating has 700 jobs. (Source: Atomic Industrial Forum and Detroit Edison)
Energy	Enactment of natural gas deregulation legislation.	Legislative	Removing federal price controls would end market disorders caused by the National Gas Policy Act and would spur exploration and production.	Budget Savings - New jobs result from increased exploration and development of natural gas.
Environmental Law	Reform/rewrite of major environmental laws to provide continued strong pollution control without costly economic side-effects caused by regulatory confusion and delays, and unnecessarily complex statutory requirements.	Legislative and Regulatory	It is important to streamline environmental laws and regulations to eliminate unnecessarily complex provisions that cause permitting delays and constrain or prevent business' ability to modernise or expand plants and facilities.	The Council on Environmental Quality and the U.S. EPA estimate the cost of industrial compliance with existing environmental laws will total $300 - $400 billion (1979 dollars) during the 1980's. Constructive reforms could save billions of dollars and free funds for productive, job-creating investments.

General Area	Actions Needed	Type of Action Needed	Rationale for Action	Potential Benefits
Health Insurance	Prevent new taxes on costs of employee health plans.	Legislative	To prevent larger costs for labor, particularly any that would reduce adequate health care for the labor force.	Prevent increased labor costs that could increase unemployment.
International Trade	1. Develop DISC alternative that is GATT legal, revenue neutral and protects small and medium sized business.	Legislative	To help maintain competitive position of U.S. exporters and keep intercompany pricing rules simple.	DISC generates at least $1.24 of revenue for every $1.00 of tax deferred, to up to 7 billion dollars for increased exports. Estimated 280,000 jobs at stake given 40,000 for every 1 billion of exports. (Department of Commerce figures.)
	2. Defeat Domestic Content bills for autos and other products.	Legislative	Domestic Content rules for auto industry would 1) trigger trade war with massive retaliation against U.S. exports, and 2) would fail to address real causes of problem in auto industry.	Congressional Budget Office estimates that bill would create 38,000 auto jobs by 1990 but at cost of 104,000 jobs lost because of foreign retaliation against U.S. exports. Net job loss equals 66,000.

General Area	Actions Needed	Type of Action Needed	Rationale for Action	Potential Benefits
	3. Restore Eximbank lending & guarantee authority for FY'83 to FY'82 levels. Assure FY'84 levels are at FY'82 levels or more. FY'82 levels = $4.4 billion for loans and $9.2 billion for guarantees and insurance. FY'83 levels proposed by Administration = $3.8 for loans and $8.0 for guarantees and insurance.	Executive and Legislative	To promote exports and neutralize foreign subsidized export financing.	Estimates of employment supported by exports are 40,000 jobs for every $1 billion. Every $1 Eximbank support generates $1.69 in export sales. By conservative reasoning, FY'83 cut could mean $2.991 billion lost exports, translating into 119,640 lost jobs.
	4. Modification of Export Administration Act.	Legislative	To provide for a greater degree of predictability in the export control process by establishing more rigorous procedures for the enactment of trade sanctions.	Job creation - one job for each $25,000 of U.S. exports of manufactured items.
Job Training Partnership Act	Activate Title III, programs for displaced workers early in 1983, rather than in October 1983.	Legislative (appropriations)	Allow state governments to immediately set up an organization of employers and others to direct job search, placement and training assistance to displaced workers.	Cost - $150 to $200 million. No new structure needs to be created. Immediate action is possible. Would aid unemployed skilled workers, who have lost their jobs in declining industries, to receive counseling and retraining for new career opportunities.

General Area	Actions Needed	Type of Action Needed	Rationale for Action	Potential Benefits
Job Training Partnership Act	Continue to encourage business leadership of state and local structure.	Voluntary	Makes public training programs directly responsive to employer needs and gives disadvantaged and dislocated workers specific training for known jobs.	Makes efficient use of $4 billion already committed to providing marketable skills for the disadvantaged and retraining for the displaced.
Labor Law	1. Repeal of Davis-Bacon	Legislative	To eliminate waste, inefficiency and unfairness arising from the Federal Government mandating high wage levels for government construction.	Budget Savings - $2 billion annually. Job Creation - 100,000 estimated.
	2. Repeal of Service Contract Act	Legislative	To eliminate waste, inefficiency and unfairness arising from the Federal Government mandating high wage levels for government service contracts.	Budget Savings - $100 million estimated. Jobs - 5,000.
	3. Repeal of Walsh-Healey Act	Legislative	8-hour a day overtime restrictive for federal contractors, prohibits flextime/compressed work-week schedules, adds unnecessary paperwork costs.	Budget Savings - $50 million. Jobs - 2,500.

General Area	Actions Needed	Type of Action Needed	Rationale for Action	Potential Benefits
	4. Enactment of Youth Differential to Minimum Wage Law	Legislative	To encourage employment of teenagers and provide entry level job opportunities for our youth; also benefits consumers because services provided would increase. Minimum wage at 75 or 85% of current $3.35 per hour level for 16 to 19 year olds. New hires would help reduce teenage unemployment.	Jobs creation estimates at up to 50,000 jobs.
Leasing Public Lands	Increase access, on-shore and off-shore, for extraction and production of fuel and non-fuel mineral resources.	Administrative and Legislative	Will retain and expand U.S. industrial activity for exploration, extraction and smelting of fuel and non-fuel minerals; prevents export of these jobs; returns some to us.	Lease payments to Treasury. Increased industrial activity. For the 12 months ending 7/82, 380,000 related jobs have been lost. (Source: Bureau of Mines)
Small Business	Aiding Small Business Capital Formation and Retention and thereby increasing employment with the following nine actions:			

General Area	Actions Needed	Type of Action Needed	Rationale for Action	Potential Benefits
	1. Implement the new Small Business Revitalization Program to stimulate further private investment in small business.	State officials, bankers, business leaders and chambers of commerce need to work with SBA and HUD to find small business development projects to support.	New program designed to achieve goal of investing $5 billion into small businesses in 21 states, creating new permanent private sector jobs. Program not expected to require any additional expenditure of federal funds or hiring of additional federal employees.	It is estimated that the program will produce 300,000 new permanent private sector jobs within four years.
	2. Promulgate the new Subchapter S provisions of the Internal Revenue Code.	Regulatory	Proposals from 2 to 9 would offer millions of small employers new marginal incentives to add "that one additional employee" that could multiply in numbers and start quickly to bring down the rate of unemployment.	Since small business is the outstanding job creator, programs that aid small business will lead to job creation in the private sector.
	3. Encourage early publication by the Department of Labor of a new Plan Asset Rule governing pension fund investment in small firms.	Exploratory		

General Area	Actions Needed	Type of Action Needed	Rationale for Action	Potential Benefits
	4. Explore mechanisms to pool the risks of small business investments in both debt and equities to make such investments more salable to institutions and private investors. Include in such mechanisms more attractive means for pension funds to consider small business equity, investments and to provide for long-term debt financing.	Exploratory		
	5. Repeal the recent "top heavy" pension rules applied by TEFRA.	Legislative		
	6. Repeal interest and dividend withholding.	Legislative		
	7. Further reduce capital gains tax levels.	Legislative		

General Area	Actions Needed	Type of Action Needed	Rationale for Action	Potential Benefits
	8. Enact a "roll-over" provision for tax treatment of equities in small businesses.	Legislative		
	9. Re-write the debt-equity rules issued pursuant to Section 385 of the Internal Revenue Code to enable smaller firms to comply easily with the law.	Regulatory		
Tax Policy	1. Retain third-year tax cut.	Legislative	To remove disincentives to work, save and invest.	$33 billion of added personal savings and consumption will increase employment.
	2. Reduce the capital gains rate.	Legislative	Create more venture capital, enhance small business formation and expansion.	Reduction will lead to new investment and new business formations that will create jobs.

General Area	Actions Needed	Type of Action Needed	Rationale for Action	Potential Benefits
Unemployment Compensation	1. Charge Federal Supplemental Benefits debt to federal general revenues (FSB was temporary extension of duration 1974-78).	Legislative	To repay advances that should never have been an employer liability; will speed up expiration of payroll surtax.	Increase employment by reducing total labor costs of businesses.
	2. Prohibit net benefit liberalization while states are in default on loans.	Legislative	To prevent states from raising benefits when they can't afford existing benefits; will encourage benefits reform leading to earlier return to work and reduce future payroll tax increases.	Increase employment by reducing total labor costs of businesses. Budget savings - $1 billion.
	3. Tighten eligibility for Federal Supplemental Compensation.	Legislative	To eliminate payments to individuals with weak workforce attachment, out on strike, etc; will reduce incentives to avoid work.	Increase employment by reducing total labor costs of businesses. Budget savings - $100,000. Reduces disincentives to take jobs.
	4. Require claimants to participate in programs teaching how to look for jobs.	Legislative or Regulatory	To teach claimants how to find their own jobs and to disqualify claimants who are not interested in working; will reduce benefit payout, payroll taxes.	Increase employment by reducing total labor costs of businesses. Budget savings - $1 billion. Reduces disincentives to take jobs and reduces cost of labor.

General Area	Actions Needed	Type of Action Needed	Rationale for Action	Potential Benefits
Workers' Compensation	1. Longshoremen's Compensation Act Amendments.	Legislative	To reform highly-abused benefit program for maritime workers, whose costs make employment prohibitively expensive.	Reduces cost of hiring and reduces work disincentives.
	2. Reform of Federal Employees' Compensation Act.	Legislative	To reform benefit program for federal government workers; will reduce incentives to avoid work.	Reduces cost of hiring and reduces work disincentives.

Chamber of Commerce of the United States
January, 1983

Indian and Native American
Employment and Training Coalition

January 21, 1983

The Hon. Dan Quayle
Chairman
Subcommittee on Employment and Productivity
Committee on Labor and Human Resources
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

Attached is a statement which we would request be included in the record of the Subcommittee's hearings on the federal government's role in job creation programs.

We would also request that Indian and Native American leaders be included in any hearings which the Subcommittee may hold on legislative proposals in this area.

Thank you for your interest in our position and your support for effective job training and employment programs for unemployed Indian and Native American workers.

Sincerely,

Lonnie Racehorse

Lonnie Racehorse
Facilitator
Legislative Task Force

Attachment

Information and Coordination Office: 1000 Wisconsin Avenue, Northwest, Washington, D.C. 20007 (202) 338-4804

Indian and Native American Employment and Training Coalition

A silent crisis is stalking Indian Country. It is the lack of work, or rather the lack of paying jobs to do the work that needs to be done.

It is a crisis because it affects virtually every Indian family in nearly all Indian and Native American communities. It is a silent crisis, so far, because it exists in the quiet of the Indian home, out of hearing and out of sight of the national media.

The jobs crisis in Indian Country has resulted from the simultaneous collapse of both the long-dominant public sector economy and the newly emerging private sector economy on Indian reservations and in other Indian and Native American communities.

Although the jobs crisis is deeply felt within Indian America and is widely recognized by public and private agency leaders that deal with Indian communities, no relief has been offered by any source.

Congress must act now. The resources to address the silent Indian jobs crisis do not exist in Indian tribal governments. They do not exist within Indian and Native American organizations serving off-reservation communities. And they are not to be found in the private sector. The Indian jobs crisis must be met by direct action at the federal level.

Indian unemployment isn't measured with the regularity and attention given to the unemployment statistics for non-Indian communities. While the press gives prime time, front page attention to shifts in overall

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unemployment rates measured in tenths of a percentage point, unemployment on an Indian reservation can go up 30 percentage points with scarcely anyone off the reservation noticing. The Bureau of Indian Affairs normally conducts a survey of employment conditions on and near reservation areas once a year. It skipped the survey last year, just as the jobs crisis was intensifying. The final results of this year's survey won't be known for several months. Indian and Native American unemployment in off-reservation urban and rural areas is measured exactly once every ten years -- by the Census. The results of the 1980 Census, conducted three years ago, should be available shortly.

The Dimensions of the Crisis

What is known about the dimensions of the Indian jobs crisis is that:

- Many tribes estimate that current unemployment rates on their reservations are in the vicinity of 80% to 90% of their total available labor force. These rates have jumped 10 to 20 percentage points from the levels that prevailed in late 1980 and early 1981.
- Unemployment among Indian workers in off-reservation areas is a mirror image of reservation conditions. Reservation workers drift into the cities in a futile search for work, drifting back to the reservations for help from families and sources unavailable in the cities.
- Thousands of jobs in the natural resource industries -- mining, lumbering and fishing -- have disappeared from Indian and native Alaskan communities. The reasons vary by industry and area, but most are related to the depressed state of the national economy.
- Lagging levels of general business investment and consumer spending have affected two other principal approaches to Indian economic development: industrial development and tourism.

- The bottom has fallen out of the public sector job market. By one estimate, federal funding for Indian programs has dropped by almost $1,000 for every Indian man, woman and child in the country. This is in addition to the federal budget cuts affecting the poor generally, Indian as well as non-Indian. Many of the programs cut, such as those for housing development, were an important source of jobs for reservation workers as well as a source of services for reservation residents.
- About 10,000 Indian jobs were lost through just one federal action, the defunding of the CETA Public Service Employment programs under CETA Titles II-D and VI.

Throughout the unfolding of the Indian jobs crisis over the last two years, there has been only one federally-supported effort to analyze this problem. This was a study funded by the Administration for Native Americans in the Department of Health and Human Services. The study was never released. The Department of Labor has made no attempt at all to look at the effect of unemployment on Indian and Native American communities.

Potential Indian Job Creation Initiatives

The ideal solution to the Indian jobs crisis is the creation of permanent, unsubsidized jobs for Indian and Native American workers throughout the country. This involves the availability of a number of tools to stimulate Indian economic development, coupled with training, work experience and related services to insure that Indian workers get the jobs that are created.

Congress made a major contribution to this approach by authorizing special Indian and Native American job training programs in Section 401 of Title IV-A of the Job Training Partnership Act. Indian and Native

American grantees appreciate the leadership which the Senate Labor and Human Resources Committee and the House Education and Labor Committee provided in writing these valuable provisions into JTPA.

The Congress has also made progress in shaping new tools for Indian economic development, though much remains to be done to generate new investment in productive activities consistent with Indian goals and lifestyles. Some of the tools that were formerly available to further Indian economic development projects are now gone, victims of federal fiscal policy.

Essential as job training and economic development programs are to long term job creation in Indian communities, they don't meet the needs of the current crisis.

The two approaches to immediate job creation that have been tried and have succeeded in the past are public service employment and public works construction projects.

Public service employment worked in Indian Country. It provided both new jobs and vitally needed services to Indian reservation and native Alaskan communities. PSE positions won for Indian workers in off-reservation communities by the efforts of Indian organizations working with local CETA prime sponsors were effective in reaching those workers. The accomplishments of Indian PSE programs went unrecognized outside Indian Country for only one reason -- nobody bothered to look at what these programs achieved.

PSE programs helped establish Indian tribal enterprises by providing them with a start-up labor force. Indian PSE workers fixed thousands of Indian homes, coupling their labor with scarce housing rehabilitation funds from other sources. Indian PSE workers manned tribal public safety agencies, drove ambulances, staffed clinics, served meals to the elderly and cared for the young. In many small and remote Indian communities and native Alaskan villages, Indian PSE programs provided the first public services ever based in such areas.

Indian tribes and organizations have had to prove -- the hard way — that PSE worked by pointing to what its absence has meant. It has meant drastic cuts in tribal police forces, no village government clerks, no wood hauled for the elderly, few homes weatherized, sporadic or non-existent emergency medical services. There has been no money to employ the workers to provide these services. The jobs lost have disappeared. Those who were productive workers are unemployed.

Restoring funding for Indian public service jobs is essential to any meaningful approach to the Indian jobs crisis.

The public works approach to job creation also applies to Indian Country. Indian tribal governments participated in several of the construction-oriented economic stimulus programs of the middle and latter 1970's. Tribes competed so successfully for funds in the first round of grants awarded under EDA's Local Public Works program that an Indian set-aside was created for the second funding round. The facilities which LPW built now provide residential drinking water, sanitation services, recreational opportunities and other services to thousands of reservation residents, as well as housing the basic governmental operations of a number of tribes. The ability of tribes to maximize the job opportunities which such construction creates has increased markedly through the establishment of Tribal Employment RightsOffices (TEROs).

Enabling Indian grantees to use funds to help repair, improve, maintain and staff such facilities is also important. Without support for such staff, the full potential of the facilities cannot always be realized.

The Lessons of Experience

A number of important lessons can be drawn from an analysis of past experience and an examination of the nature and depth of the current Indian jobs crisis.

First, real help must be provided now — before despair and dependency become any worse. The promises of help last year and the year before proved empty. Direct federal support for direct Indian job creation is urgently needed now. A program which includes a public service jobs component offers the fastest and the surest way of putting Indian people to work.

Second, an in-place delivery system exists to administer such programs. All it needs is the money to do the job. This delivery system is the network of Indian tribal governments and Indian and Native American organizations that have successfully operated employment and job training programs for nearly a decade, first under CETA and now under the Job Training Partnership Act.

Third, any job creation program must include authority for the direct funding of Indian and Native American programs and a special Indian set-aside in order to insure that the Indian unemployed are served.

Fourth, any job creation program law must provide flexibility for the operation of Indian programs so that special program rules can be tailored to meet the specific needs of Indian and Native American communities.

Terrible as the current Indian jobs crisis is, it is also an opportunity. There is plenty of work that needs to be done in Indian Country. There are talented and willing workers available to do that work. All that's necessary is for the Congress to help us to put the two together.

January 21, 1983

STRATEGIES FOR ASSISTING THE UNEMPLOYED

December 8, 1982

Prepared by the Staff of the
Human Resources and Community Development Division
Congressional Budget Office

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SUMMARY

With unemployment currently at its highest level since World War II and likely to continue high for some time to come, concern in the Congress has been directed toward creating more jobs. Today's high unemployment is the result of both cyclical and structural causes: the slowdown in economic activity; the persistent job difficulties of disadvantaged low-income groups; and the long-term declines of some manufacturing industries. Because the reasons for the joblessness of different groups of unemployed persons are not the same, options for helping them differ.

Substantial long-term improvement in the overall unemployment picture will not occur without sustained economic growth. A strong economic recovery would directly expand opportunities for persons unemployed because of the recession. Renewed growth is also necessary for the success of programs designed to assist disadvantaged and dislocated workers. But the difficulty of identifying any general economic policy that might lead rapidly to this renewed growth without eventually rekindling inflation, and the perception that some government action is needed quickly, has focused attention on proposals to create jobs directly for a limited number of the unemployed.

FACTORS AFFECTING THE POLICY RESPONSE

The recent rise in unemployment has occurred during an extended period of weakness in the economy that is largely the result of restrictive monetary policy (designed to reduce inflation) interacting with expansionary fiscal policy--that is, government spending far in excess of revenues. Although nominal interest rates have declined recently, real interest rates--after taking account of inflation--remain high. In addition, federal deficits are likely to increase, running in excess of $150 billion in each of the next several years unless further action is taken to increase revenues or hold down spending. These deficits could create enough pressure on credit markets to keep real interest rates relatively high.

Traditional methods of stimulating the economy by increasing federal spending or cutting taxes may have adverse effects at a time when credit is tight. Such measures would require an increase in the deficit, increases in other taxes, or reductions in other federal spending. Further increases in the federal deficit would place additional pressure on interest rates, which might choke off economic recovery unless the monetary authorities took action to offset the rise in interest rates. Increases in the deficit might entail some risk of higher inflation in the future. On the other hand, increases in taxes to finance spending would shift productive activity from the private sector to the public sector, with little effect on overall employment. Shifting federal spending away from other federal programs might do little to increase overall employment, and would reduce the resources going to areas that the Congress deemed important in the past.

On the other hand, there are reasons why the Congress might wish to enact limited short-run stimulus programs--they could be targeted to particular areas and groups of jobless persons and they could be designed to meet longer-run objectives as well. In the short run, resources could be channeled toward labor-intensive projects in order to spur employment. In the long run, such projects could increase the efficiency of the economy through the skills that workers might acquire and the physical capital, such as improved infrastructure, that could result from them. Moreover, spending could be increased now but financed by tax increases that would take effect in later years. This would effectively move jobs from a future period to the current one--when unemployment is exceptionally high--provided the monetary authorities acted to prevent the rise in interest rates that might result from financing a higher deficit in the near term.

If the Congress chooses to provide some additional assistance to the unemployed, two general approaches are available. First, the Congress could choose to address cyclical unemployment problems by expanding job opportunities for those unemployed persons who are most severely hurt by current conditions. Second, the Congress could focus on the structural unemployment problems responsible for the long-term joblessness of certain disadvantaged or dislocated workers--persons who are not only unemployed now, but who will remain ill-equipped to find work even after a recovery is well under way.

OPTIONS FOR REDUCING CYCLICAL UNEMPLOYMENT

Several approaches have been proposed for dealing with cyclical unemployment problems (see Summary Table). These approaches--all of which have been used in previous recessions--include:

- Expanded infrastructure construction or repair programs;
- Other public employment programs;
- Countercyclical revenue sharing;
- Countercyclical housing subsidies;
- Wage subsidies for new private-sector employment; and
- Expanded or redirected Unemployment Insurance.

Options for reducing cyclical unemployment may be assessed against several different criteria. The principal considerations include the number of new jobs that would be created, who would be helped by the program, and the value that society would place on the additional goods or services

SUMMARY TABLE. EFFECTS OF SELECTED OPTIONS TO STIMULATE EMPLOYMENT

POLICY OPTION	JOB CREATION [a]	TARGET GROUP	EXTENT OF INCOME SUPPORT	SPEED OF STIMULUS	EFFECT ON LONG-TERM EMPLOYABILITY
Options for Reducing Cyclical Unemployment					
Infrastructure Improvement Program	Less than other public employment due to high capital costs and high wages.	Construction and supplying-industry workers.	High wage rates; duration variable.	Depends on type of project.	Relatively little.
Other Public Employment	Could be large; depends on wage levels and job substitution.	Depends on eligibility criteria and wages; likely groups are low-income and long-term jobless.	Low wage rates; duration variable.	Relatively quick expansion once authorized and administrative structure set up.	Depends on whether jobs provide useful skill training.
Countercyclical Revenue Sharing	Depends on state and local spending decisions.	Depends on state and local decisions; generally untargeted.	Wage rates and duration variable.	Uncertain; past experience somewhat slow; current circumstances may differ.	Relatively little.
Countercyclical Housing Subsidies	Uncertain; depends on net induced construction.	Construction and supplying-industry workers.	High wage rates; relatively short duration.	Probably faster for single-family housing; slower for multifamily structures.	Relatively little.
Countercyclical Wage Subsidies	Uncertain; depends on use by employers in creating new jobs.	Relatively untargeted.	Uncertain.	Could be implemented quickly once authorized.	Depends on whether jobs provide useful skill training.
Extending Unemployment Insurance Benefits	Negligible.	Workers in cyclically sensitive industries.	Benefits vary; duration depends on program.	Could be implemented quickly once authorized.	Might extend length of unemployment.
Options for Reducing Structural Unemployment					
Training for Disadvantaged Persons	Relatively little directly; prepares participants for jobs when economy recovers.	Low-income persons.	Little; depends on stipend.	Already in place; funding could be increased.	Effective for persons with little previous work experience.
Job-Search, Training, and Relocation Assistance for Dislocated Workers	Relatively little directly; prepares participants for jobs when economy recovers.	Experienced workers from declining industries and occupations.	Little.	Requires program start-up; not yet funded.	Uncertain; could be significant.

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a. Refers to direct job creation only; does not include possible offsetting effects of any tax increases to finance programs.

produced. The speed with which the jobs could be made available--often a major concern in employment stimulus programs--may be less critical now because high joblessness is expected to continue for some time.

Infrastructure Improvement Programs. Increasing federal funding to enable states and localities to pay for the construction or repair of roads, bridges, sanitation systems, and other public facilities has been suggested as a way of expanding employment opportunities. There is a real and urgent need for these infrastructure projects that, combined with the coincident need for jobs, has made this option attractive. If a public works program was used to address the nation's long-term public capital needs, the funds might be focused on large-scale construction projects that could improve the overall efficiency of the economy, but would take some time to get under way. Funding small-scale repairs could create jobs more rapidly but would generate benefits more local in nature, and might not be as effective a means for meeting long-term national needs. In either case, the additional employment would occur principally in high-wage, high-skill construction jobs, and in the industries that supply construction materials. If these projects were financed by simultaneous tax increases, however, the net gain in employment would be small.

Other Public Employment. Another approach would be to fund temporary jobs in government agencies, nonprofit organizations, or conservation projects. This option could create more direct employment than public works projects, because public-service employment generally uses less capital and provides participants with lower wages. Since wages are usually lower, this program would be more likely to provide jobs to low-income persons or to the long-term unemployed who have depleted their financial resources. The value of the output generated by such jobs would depend on the types of services funded and participants' skills. Past public employment programs resulted in some substitution of federal for state and local funds—thereby creating fewer net new jobs in the short run. The extent to which this would occur now, given the present financial problems of state and local governments, is not known.

Countercyclical Revenue Sharing. A third approach to increasing employment would be to provide unrestricted cash grants to states and localities, allowing them to determine how the funds would be spent. The amount of additional employment gained would depend on the decisions made by recipient jurisdictions; in the past, state and local governments did not fund particularly labor-intensive activities with stimulus funds.

Countercyclical Housing Subsidies. A quite different approach to expanding employment opportunities would be to generate additional economic activity in the private sector through mortgage-interest subsidies for the construction or purchase of new homes. Such a program could help the depressed housing industry as well as increase employment in related supplying industries. Recent declines in market mortgage interest rates, however, suggest that some increase in home purchases and construction might occur without federal aid. Under such circumstances, a large proportion of any financing subsidy might merely reduce housing costs for purchasers of new housing without generating additional construction.

Countercyclical Wage Subsidies. Still another approach to expanding job opportunities would be to provide wage subsidies--through tax credits or vouchers—to private-sector employers for hiring additional workers. This option could help to stimulate broad-based employment gains throughout the economy by reducing the cost of labor. On the one hand, such a subsidy could be implemented quickly and made applicable only for hiring during specified time periods. On the other hand, the net effect on job creation is uncertain, because many employers might receive the subsidy for new employment that would have occurred anyway.

Modified Unemployment Insurance. Although Unemployment Insurance (UI) is primarily an income support program, certain changes could be made that would provide additional flexibility in dealing with unemployment. Two options could be considered--providing lump-sum benefit payments to be used for relocation or training, or extending the duration of UI benefits to the long-term unemployed. Any changes that would increase UI outlays, however, would only worsen the already serious financial position of the UI system, unless additional resources were provided from general revenues or tax increases.

OPTIONS FOR REDUCING STRUCTURAL UNEMPLOYMENT

Even after the economy has recovered from the present recession, two groups will likely continue to experience labor market problems: disadvantaged persons, who include low-income individuals with little recent work experience and those who have worked previously but with chronically low earnings, and dislocated workers, who are persons displaced by long-term changes in the economy. The primary goal of policies to assist the structurally unemployed is to increase their long-term employability, rather than just to expand immediate job opportunities. None of these policies can succeed, however, without sustained realgrowth in the economy.

Authorizing legislation already exists that would help structurally unemployed persons. The Job Training Partnership Act (JTPA), which was enacted in October 1982, provides federally financed but state- and locally-administered training, job-search assistance, and related activities for both disadvantaged and dislocated workers. But, 1983 is a transition period from the current Comprehensive Employment and Training Act (CETA) to the new JTPA, and while assistance for disadvantaged persons is currently funded, aid for dislocated workers is not. In addition to the JTPA, the federal government provides wage subsidies to certain disadvantaged persons (mainiy youth) through the Targeted Jobs Tax Credit (TJTC).

Assisting Disadvantaged Persons

Two approaches are available for aiding disadvantaged persons--training and job-search assistance; and targeted wage subsidies.

Training and Job-Search Assistance. Different approaches might be used to aid different groups of disadvantaged persons. For adults with little previous work experience, training and job-search assistance such as that provided under CETA has been shown to be successful in the past, primarily by increasing the number of hours worked by participants. For adults with more work experience but chronically low earnings, more extensive--and, therefore, more expensive--training would probably be required to increase future wages. For disadvantaged youth, whose problems are often a lack of any work experience and, for many, of marketable skills as well, some combination of remedial education, work training, and job-search assistance might be required. Most of these services are currently provided by CETA and could be provided under the new JTPA.

Targeted Wage Subsidies. Another approach to aiding disadvantaged workers is to provide a wage subsidy for employers who hire such persons--increasing the demand for selected workers by reducing their costs to employers, rather than by increasing their job skills or facilitating the job-search process. Because wage subsidies--such as that provided through the TJTC--do not improve workers' skills, however, their success depends on the workers being at least minimally attractive to employers. Experience with the TJTC indicates that such a credit induces few employers to hire the disadvantaged.

Assisting Dislocated Workers

Several different services could be provided to aid dislocated workers in obtaining new jobs. Job-search assistance--including labor market information, job-search instruction, and counseling--might help some of these workers accept their new circumstances and find new employment. For some workers, training could help them acquire new skills that are in demand. Finally, relocation assistance--in the form of subsidized expenses and inter-area labor market information--might encourage workers to relocate to geographical areas in which there are job openings. These services are authorized under the JTPA, although no funds have yet been appropriated.

I. INTRODUCTION

The rise in unemployment over the last year to a 40-year high has prompted a number of proposals for dealing with the current increase in joblessness as well as with the structural causes of longer-term unemployment.

This analysis is intended to aid the Congress in assessing approaches to both kinds of unemployment problems.[1] Section II examines current unemployment and the outlook for the near future. Section III describes the economic context in which any employment policy would operate, and outlines broad policy choices. Section IV analyzes several approaches to cyclical unemployment--that is, unemployment caused principally by the current recession. The final section considers options for dealing with structural unemployment--joblessness that would be expected to persist even in a buoyant economy, either because of a long-term decline in the demand for labor in certain sectors of the economy, or because certain workers lack the basic skills necessary for employment.

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[1] This study was prepared quickly in order to be available during the post-election session of the 97th Congress. Given more time—and as the details of specific proposals become known—more complete analyses of particular options can be provided. Persons interested in specific issues and policy options may also refer to other Congressional Budget Office reports. Issues involved in the use of federal grants to counter economic downturns are discussed in **The Countercyclical Uses of Federal Grant Programs** (November 1978). Options for addressing the infrastructure needs of the highway system are included in **The Interstate Highway System: Issues and Options** (June 1982) and **Financial Options for the Highway Trust Fund** (December 1982). The experience with past public service employment programs is detailed in **Effects of Eliminating Public Service Employment** (June 1981). Options for dealing with the employment problems of youth—a group that experiences persistently high joblessness—are discussed in **Improving Youth Employment Prospects: Issues and Options** (February 1982). Recent experience

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1. (Continued)
with federal training programs designed to aid disadvantaged adults is evaluated in a joint CBO-National Commission for Employment Policy study, **CETA Training Programs--Do They Work for Adults?** (July 1982). The often unique problems of workers displaced from long-time employment with little prospect of being rehired are examined in **Dislocated Workers: Issues and Federal Options** (July 1982). The work-related problems of older persons as they near retirement are analyzed in **Work and Retirement: Options for Continued Employment of Older Workers** (July 1982).

II. THE UNEMPLOYMENT SITUATION

In recent months unemployment has reached its highest point since World War II, and is expected to remain high for several years. This section describes the current situation and the outlook for the near future.

THE CURRENT SITUATION

Unemployment stood at 10.8 percent in November 1982—up more than three and one-half percentage points since the most recent low point in July 1981. Almost 12 million persons were searching for work in November, and more than 1.5 million others who wished to work were not counted as unemployed because they said they had given up looking for jobs. In addition, over 2 million persons who usually work full time were on part-time schedules for economic reasons. Of those unemployed in November, almost 40 percent had been without work for 15 or more weeks, and over 60 percent were unemployed because they had lost their last job, as distinct from having quit or having newly joined or rejoined the work force.

The recent upsurge in unemployment must be seen in the context of longer-term increases in both employment and unemployment. Employment has grown considerably in recent decades, from 66 million workers in 1960 to nearly 100 million today. This is not only the result of an increase in population. The share of the population in the labor force has also increased somewhat during that time--a result of greater participation by women in the work force, only partially offset by decreased participation by men. Unemployment has also risen over this period, from an average of 4.6 percent in the 1950s and 1960s to 6.2 percent in the 1970s. Thus far in the 1980s--a period dominated by recession--unemployment has averaged 8.1 percent.

Unemployment has hit some groups in the work force especially hard (see Table 1). In November, joblessness was 20.2 percent among blacks, 15.7 percent among Hispanics, and 24.2 percent among teenagers. Over half of black teenagers in the labor market were without jobs. Unemployment has also increased significantly for adult men--from 5.8 percent in July 1981 to 10.1 percent in November, surpassing the 9.1 percent rate for adult women. The jobless rate for blue-collar workers exceeded that for white-collar workers by over 10 percentage points--16.5 percent compared to 5.6 percent--due in part to differences in the unemployment rates in the industries in which the two groups usually work.

TABLE 1. SELECTED UNEMPLOYMENT RATES BY DEMOGRAPHIC AND OCCUPATIONAL GROUPS (Seasonally adjusted, in percent)

Group	July 1981a/	November 1982
All Workers	7.2	10.8
Adult Men	5.8	10.1
Adult Women	6.7	9.1
Teenagers	18.7	24.2
White	6.3	9.7
Black	13.8	20.2
White Collar Workers	4.0	5.6
Professional and Technical	2.8	3.8
Managers and Administrators	2.6	3.9
Sales Workers	4.9	6.3
Clerical Workers	5.7	7.9
Blue Collar Workers	9.5	16.5
Craft and Kindred Workers	6.9	12.2
Operatives, except Transport	11.1	21.2
Transport Equipment Operatives	7.3	14.1
Nonfarm Laborers	14.4	19.4
Service Workers	8.0	11.2
Farm Workers	4.8	7.7

SOURCE: Department of Labor, Bureau of Labor Statistics.

a. Month corresponding to the most recent low period of unemployment.

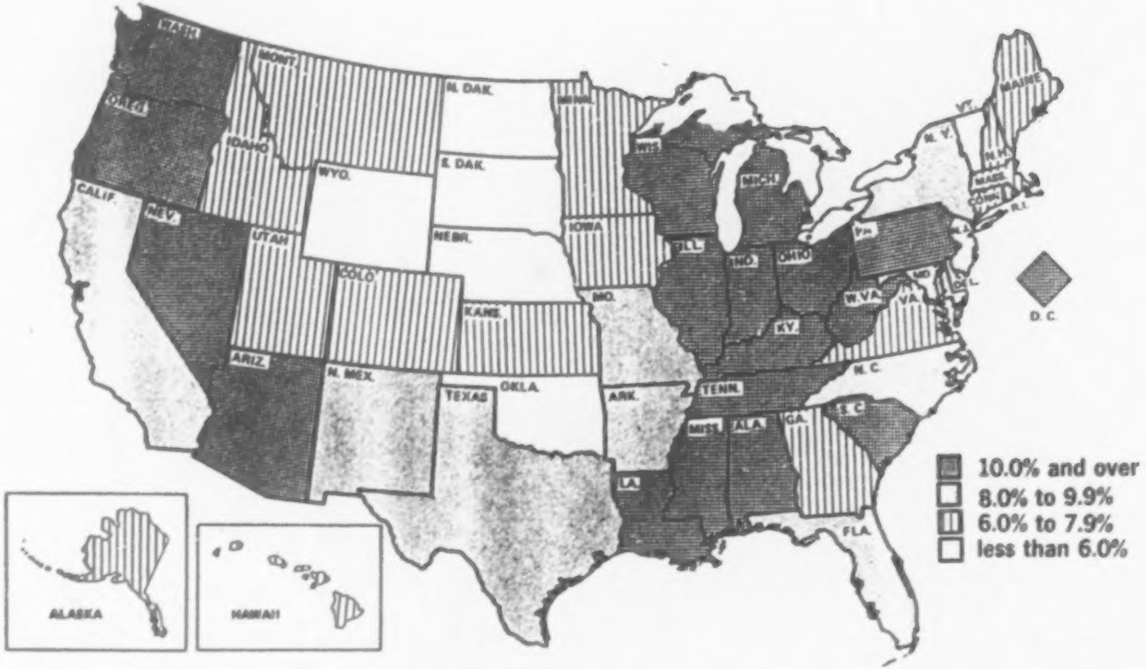
Unemployment has been concentrated in the goods-producing industries of the economy, with 21.9 percent of construction workers and 14.8 percent of manufacturing workers without jobs in November. Unemployment in the service sectors was generally less than 10 percent, and has increased less during the recession than in the more sensitive goods-producing industries. Since July 1981, employment has decreased by over 2.6 million persons in the goods-producing industries, but has decreased by less than 100,000 in the service industries.

Regional unemployment patterns are strongly related to the types of workers and industries concentrated in particular areas (see Figure 1). During September of this year, Michigan--with an economy heavily dependent on the automobile industry--had the highest state jobless rate, 14.5 percent. In the same month, Alabama, Illinois, Mississippi, Ohio, and West Virginia each had over 12 percent unemployment, while a number of states in the Far West also had rates in excess of 10 percent. The lowest state unemployment rates were in the Northern Plains and Rocky Mountain states and in New England--with North and South Dakota, Nebraska, Oklahoma, Vermont, and Wyoming all below 6 percent.

THE OUTLOOK

The employment outlook for the near future is not promising. Even if recovery begins early in 1983, joblessness may still rise somewhat from

FIGURE 1. UNEMPLOYMENT RATES BY STATE, SEPTEMBER 1982


WASH.
OREG.
CALIF.
NEV.
IDAHO
MONT.
WYO.
UTAH
COLO.
ARIZ.
N. MEX.
N. DAK.
S. DAK.
NEBR.
KANS.
OKLA.
TEXAS
MINN.
IOWA
MO.
ARK.
LA.
WIS.
ILL.
MICH.
IND.
OHIO
KY.
TENN.
MISS.
ALA.
GA.
FLA.
S. C.
N. C.
VA.
W. VA.
MD.
DEL.
PA.
N. J.
N. Y.
VT.
N. H.
MAINE
MASS.
CONN.
R. I.
D. C.
ALASKA
HAWAII
▩ 10.0% and over
☐ 8.0% to 9.9%
▥ 6.0% to 7.9%
☐ less than 6.0%

Source: U.S. Department of Labor, Bureau of Labor Statistics, November 1982 current levels. Furthermore, signs do not point to a rapid rebound in employment when recovery does take hold. A real economic growth rate of 3 to 4 percent per year, for example, implies a decline in the unemployment rate of only about 1 percentage point per year.

Structural unemployment poses additional problems. Persons with few or no marketable job skills, and employees displaced from declining industries with little prospect of being rehired by their former employers will continue to have employment problems even in a growing economy. For chronically disadvantaged persons, intensive training may be required to improve their long-term prospects. For persons displaced from declining industries--so called dislocated workers--job search assistance, aid in relocating to areas where their present skills may be in demand, or retraining may be necessary.

III. THE ECONOMIC CONTEXT OF EMPLOYMENT POLICY

The prospect of high jobless rates in the near term, and the realization that employment problems will remain for some persons even after recovery is well under way, have prompted a number of recent proposals for creating jobs and for addressing longer-term employment difficulties. This section examines the economic context within which employment policy options must be considered, and presents some of the broad choices that would need to be made.

THE ECONOMIC AND POLICY CONTEXT

The most recent upswing in unemployment has occurred during an extended period of weakness in the economy that is largely the result of a restrictive monetary policy (designed to reduce inflation) interacting with an expansionary fiscal policy--that is, one in which government spending is far in excess of revenues. Although nominal interest rates have fallen recently, real interest rates--after taking into account inflation--remain high. What is more, deficits are likely to rise to a level in excess of $150 billion during each of the next several years, unless further action is taken to increase revenues or constrain spending.

Substantial improvement in the overall unemployment picture awaits a return to sustained economic growth. However, the unique combination of monetary restraint and high deficits now in place severely limits traditional fiscal policy responses. Traditionally, the fiscal policy response to recessions has been higher spending, tax cuts, or both. Since the present fiscal policy is already expansive, giving it freer rein might risk driving up long-term interest rates --which might in turn largely offset the additional fiscal stimulus.

It is within this context that proposals have been made to address directly the problems of some limited number of the unemployed. While such proposals could improve circumstances for some unemployed persons, the impact on overall economic conditions would likely be limited. For one thing, short-term employment stimulus programs of any feasible size could directly aid only a small proportion of the unemployed and could only marginally affect the state of the economy at large. Also, for such programs to produce a net stimulative effect would require that they represent a net expansion in economic activity. Yet there are only two ways of financing these programs--increased tax revenues or increased federal borrowing--either of which might act to offset the desired expansion.

Programs that would simultaneously raise taxes and spend the proceeds would, as a first approximation, result in little or no net job creation. This is because the increased tax burden would, for the most part, reduce household and business spending. Thus, the job losses from higher taxes would eventually roughly offset the jobs created by the enlarged public spending. Proposals of this nature might therefore be evaluated on other grounds. One major criterion might be whether the new output—better highways, expanded public services, and so on—would be worth the costs of the program. In addition, a tax-financed program could change the distribution of unemployment and employment among industries, so the desirability of such shifts might also be a consideration. Finally, depending on the timing of the tax and spending increases, more jobs now might effectively be traded for fewer jobs in the future—when the overall level of unemployment is expected to be lower. This outcome might be achieved, for example, if spending were increased quickly but the tax increases were postponed until future years, providing the monetary authorities acted to prevent a rise in interest rates in the near term.

Increased spending without concurrent increased taxes, by contrast, would encounter certain risks. The direct impact of such programs would be to increase employment, but the concomitant increase in the federal budget deficit might limit the net increase in jobs. With unchanged monetary policy, interest rates might rise, thereby offsetting part or all of the stimulus. Loosening monetary policy to avoid an increase in interest rates in the short run might lead to higher inflation and a rise in long-term interest rates, thereby attenuating the jobs-creation results. On the other hand, a plausible shift toward expectations of better future markets for goods and services as a result of the stimulus program could actually strengthen the job-creation effects.

The Congress has to decide whether, on balance, the current employment outlook and the recently improved state of inflation may warrant taking the risks associated with short-term stimulus options. These risks could be minimized by designing stimulus programs that need not have substantial impacts on budget deficits in the longer term. For example, programs in which spending could be ended after the cyclical need had passed could be emphasized, or offsetting tax increases could be scheduled to take effect in future years.

BROAD POLICY CHOICES

If the Congress chooses to provide some additional assistance to the unemployed, it will first have to determine what broad policy objective is to be pursued. Two general approaches are available. First, the Congress could choose to address cyclical unemployment problems as a way of expanding job opportunities immediately for those unemployed persons who are most severely hurt by current conditions. Alternatively, the Congress could focus on the structural employment problems that will leave large numbers of persons ill-equipped to find work even after a recovery is under way.

Quite different options might be appropriate to these different objectives. If the primary objective is to provide immediate assistance to those persons who have been most severely hurt by the present economic downturn, the Congress might be most concerned about quickly providing targeted job opportunities or additional income support. If instead the principal focus is on longer-term employment problems, the Congress might wish to concentrate on training or job-search assistance for disadvantaged or dislocated workers. Both sets of objectives could, of course, be pursued simultaneously through some combination of programs.

Section IV of this analysis examines specific options for addressing cyclical employment problems. Section V focuses on ways to deal with structural unemployment.

IV. OPTIONS FOR ADDRESSING CYCLICAL EMPLOYMENT PROBLEMS

Several approaches have been proposed for alleviating cyclical unemployment problems. These approaches—all of which have been employed in prior recessions—include:

- Expanded infrastructure construction or repair programs;
- Other public employment programs;
- Countercyclical revenue sharing;
- Countercyclical housing subsidies;
- Wage subsidies for new private-sector employees; and
- Expanded or redirected Unemployment Insurance.

These approaches differ appreciably. Expanded infrastructure programs would provide a boost to construction employment and to employment in the industries that supply materials used in the physical improvements. Grants to finance other public services, by contrast, would probably be directed more toward providing immediate income support to a larger number of lower-skilled workers. Countercyclical revenue sharing would shift to states and localities the full responsibility for determining how the additional funds were used. Countercyclical housing subsidies would be aimed at spurring additional activity in one specific sector of the private economy. Wage subsidies would be intended to generate additional hiring throughout the private sector. Finally, the Unemployment Insurance program could be used to provide additional income support for unemployed workers with prior labor market experience, or to hasten their reemployment.

Several criteria might be used in assessing countercyclical employment expansion options. The principal concern might be how many new jobs would be created in the short run. Job creation under any employment stimulus program has several aspects, however. The first is the number of jobs created directly in publicly financed projects and in the industries that supply materials for those projects—so-called direct job creation. The second aspect of job creation is employment that occurs as a result of the direct job creation—primarily as those hired directly spend their additional income. This is often referred to as indirect job creation. The sum of both direct and indirect job creation is often referred to as the "gross" number of jobs created. On the other hand, for any job creation program, there will also be several offsetting factors. These factors include the number of persons who would have been hired even in the absence of federal aid and the possible reductions in private-sector employment that would result from any simultaneous tax increase. The number of jobs created, or lost, after all such offsetting factors are taken into account is often referred to as the "net" number of jobs created. Each of these elements in turn—gross direct employment, gross indirect employment, and net job creation—is increasingly difficult to measure and predict.

Other possible issues in assessing countercyclical employment options include whether the new jobs would be targeted on the persons in greatest need, and how much income support would be provided to those who would benefit. Any countercyclical stimulus program might also be judged on how valued the additional goods and services generated in the short-run would be, and how much the program would contribute to long-term productivity gains. A final criterion might be how rapidly the assistance would be made available, although this might be of less concern under present circumstances, in light of the expectation that joblessness will remain high for some time to come.

The remainder of this section analyzes the six countercyclical strategies listed at the outset. For each approach, prior federal experience is examined,1/ implications are drawn from that experience, and specific options are discussed.

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1. To the extent that they are available, the results of program evaluations are presented. Considerable caution should be exercised in interpreting the results of those evaluations, however. For one thing, the different economic circumstances in which prior countercyclical programs operated affect their impacts. Also, evaluations of prior programs often use quite different methodologies, which can make the results noncomparable—particularly regarding the crucial question of net job creation.

INFRASTRUCTURE IMPROVEMENT PROGRAMS

Increasing federal funding to states and localities to finance improvements to the nation's public infrastructure--roads, bridges, sanitation systems, and other public facilities--could expand employment opportunities in construction and in certain industries that supply building materials and, at the same time, improve the efficiency of the economy in future years.

Past Experience

The federal government has increased spending for infrastructure improvements several times during recent decades as a means of expanding short-term employment opportunities. The most recent such program was the Local Public Works (LPW) program, which awarded $6 billion to states and localities between July 1976 and September 1977 to fund 10,600 projects, principally in areas of high unemployment.2/ The LPW program represented a joint effort of the federal government and state and local governments, with the federal government--through the Economic Development Administration (EDA) in the Department of Commerce--funding projects from a wide range of proposals submitted by state and local governments.

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2. This summary of the Local Public Works program is drawn from: U.S. Department of Commerce, Economic Development Administration, Local Public Works Program: Final Report, December 1980.

The LPW program generally funded small-scale projects, costing an average of $570,000, with none larger than $5 million. About 55 percent of LPW funds were used to finance the construction of new facilities; another 12 percent were used for additions to existing facilities; and the remaining funds were used primarily for rehabilitation and repairs. Sanitation projects—water, sewer, and utility systems—accounted for about a fifth of total funding. Streets and bridges, schools, and municipal buildings each accounted for between 10 and 20 percent of total funding. Virtually all of these projects were estimated to have been net increases in construction at the time; that is, they were projects that state and local governments would have funded only at a later date, if at all.

About 22 percent of LPW funds were spent directly on labor, employing approximately 1.1 million people at one time or another, mostly in short-duration construction jobs averaging less than one month. Measured by person-years of employment, LPW directly created 93,000 jobs. Nearly two-thirds of those hired on LPW projects were skilled workers—virtually all members of construction trades. In addition, 28 percent of the workers were classed as unskilled and 9 percent as administrative personnel. About 13 percent of those hired on LPW projects were unemployed at the time they were hired. In addition, some share of those who were previously employed would likely have become unemployed had LPW not provided them jobs, though it is not possible to estimate how many.

The remaining four-fifths of LPW funds, which were used to purchase materials, created an estimated 66,000 person-years of employment in such supplying industries as concrete and steel manufacturing. Thus, the LPW program is estimated to have created about 159,000 person-years of employment directly at a cost of about $38,000 per job-year in 1978 dollars.[3]

Most of the effects of LPW, however, were felt during the economy's recovery. The peak of LPW spending came in 1978—nearly four years after the trough of the recession and two years after passage of the initial LPW authorizing legislation (see Figure 2). By that time, unemployment was back at approximately its pre-recession low, and the additional public works spending is regarded as having been procyclical—probably contributing to inflationary pressures of the late 1970s.[4] The slowness of LPW spending was due in part to the timing of Congressional action in authorizing the program, and in part to the lags inherent in planning and carrying out public works projects.

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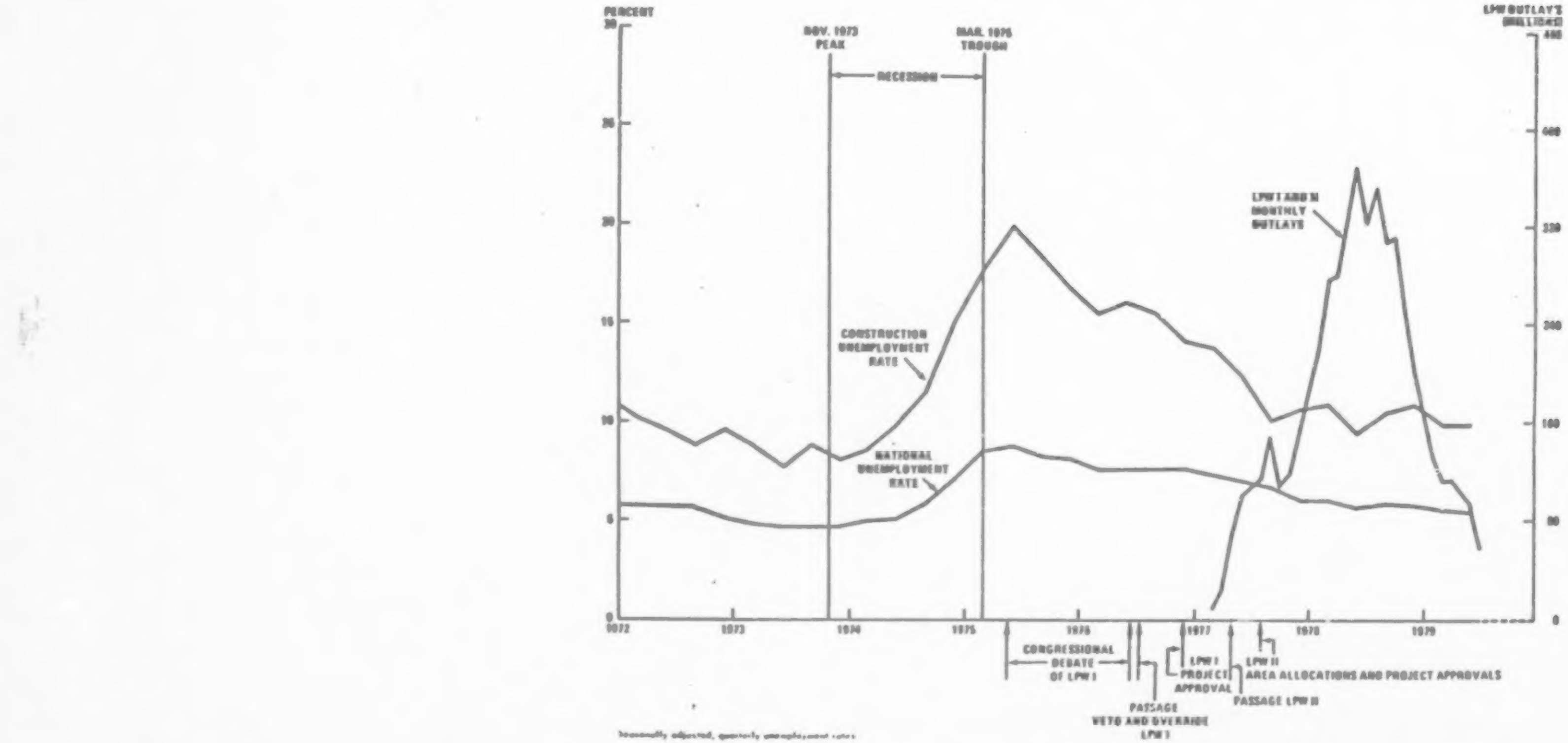
3. These figures reflect only those persons employed on-site on LPW projects, administrative personnel, and persons employed in producing materials used on LPW projects. The number of jobs created and the cost per job do not reflect indirect employment that occurs as those employed directly and in supplying industries spent their wages on goods and services.

4. Office of Management and Budget, **Public Works as a Countercyclical Assistance**, November 1979, p. 1.

FIGURE 2. DISTRIBUTION OF LOCAL PUBLIC WORKS OUTLAYS IN RELATIONSHIP TO NATIONAL UNEMPLOYMENT RATES



Seasonally adjusted, quarterly unemployment rates

SOURCE: Office of Management and Budget, Public Works as Countercyclical Assistance, November 1979, p. 3.

Policy Implications and Options

In general, public works programs create employment principally for relatively high-wage and high-skill construction workers and for workers in supplying industries. Such programs also generally require more time to generate these effects than do other types of countercyclical strategies. Depending on the program structure and financing mechanism, however, public works programs might be a vehicle for assisting industries significantly hurt by the current recession and for improving overall efficiency in the economy by providing needed infrastructure repairs.

At least two major approaches exist for public works spending increases. The federal government could serve primarily as a financing source--as it did with the LPW program--allowing state and local governments to submit funding proposals for a wide range of projects to a designated federal agency, and then funding selected projects. Alternatively, the federal government could increase funding for existing national programs--such as the activities of the Federal Highway Administration or the Environmental Protection Agency--that would meet various national infrastructure needs.

Funding a State- and Local-Designed Program. If the federal government chose to fund an LPW-like public works program, a number of design issues would have to be addressed. First, a federal agency would have to be designated to administer it. The EDA would be one possibility, as would the Department of Housing and Urban Development, which reviews and funds capital projects through the Urban Development Action Grant program, and the Farmers Home Administration in the Department of Agriculture, which provides infrastructure funding through its rural development programs. The choice of agency might affect the speed with which a program could be implemented, although if high unemployment persists for some time, this might be of less concern.

A second issue would be which governments to assist. One option would be to limit aid to localities experiencing relatively high levels of unemployment. Alternatively, given the widespread nature of cyclical unemployment, all states and general-purpose local governments could be eligible, with such criteria as the current unemployment rate and fiscal distress of jurisdictions considered in selecting the applications to be funded.

Finally, a set of eligible activities would have to be determined. A wide range of new construction and repair activities could be permitted, as was the case in the LPW program, with priority given to projects that had high labor needs and that produced large numbers of jobs. Alternatively, projects could be limited to rehabilitation and repair activities that require relatively large numbers of low-skilled workers, such as painting public buildings or repairing local roads.

Increasing Funding for Federal Infrastructure Programs. A second major option would be to increase funding for the major federal programs that address infrastructure needs. These programs include the activities of the Federal Highway Administration--already slated by the House of Representatives for major increases; waterway and land-based projects undertaken by the Army Corps of Engineers; waste-water treatment plants and other facilities provided by the Environmental Protection Agency; and airport and air traffic control facilities of the Federal Aviation Administration, among others.

In general, increases in funding for federal infrastructure programs would not necessarily lead to rapid employment gains, nor to large numbers of jobs, although such funding increases could lead to long-term increases in the efficiency of the economy. Federal infrastructure programs generally require fairly long periods in which to design and implement projects. Directing additional funding to projects already planned, however, could decrease these lags, depending on the number of such projects available and their actual state of readiness. Further, infrastructure programs generally employ relatively high-wage workers in construction and in supplying industries, suggesting that infrastructure programs would create fewer jobs for a given federal expenditure than programs that fund activities performed by lower-wage workers. On the other hand, the nation's infrastructure is in need of significant funding increases, particularly for repair. Additional funding could create long-term gains in productivity by enabling the overall economy to function more efficiently.

If the Congress chose to undertake major improvements to the nation's infrastructure, serious attention would have to be paid to the manner in which these increases were financed. Historically, many of these capital facilities have been financed by the direct beneficiaries through user fees, such as motor fuels taxes—an approach that helps assure that useful projects are undertaken. Raising fees would, however, merely transfer resources—and jobs—from private-sector activity to public, thus creating few, if any, jobs on net. In fact, the effects on employment would be negative, if taxes were raised immediately and the increased federal outlays did not occur until sometime later—although in the short-run the increased revenues would reduce the federal budget deficit. These negative effects could be reduced by phasing in tax increases to correspond to the expected federal expenditure increases. And employment could be raised in the short run, by increasing federal spending immediately and raising user fees in the future to finance the increased activity, providing that monetary authorities acted to avoid increases in interest rates that could result from having to finance a higher deficit in the short run.

OTHER PUBLIC EMPLOYMENT PROGRAMS

Another approach to expanding employment opportunities would be to finance jobs in federal, state, local, or nonprofit agencies providing other public services. Under this approach, a greater share of the federal expenditure would go directly to wages than is the case with public works projects, and the additional short-term employment could probably be generated more quickly. On the other hand, the jobs created would generally be lower paying, and in past public employment programs some questions have been raised regarding the value of the additional services provided.

Past Experience

The federal government has used public service employment (PSE) programs twice in the recent past to address the problem of high unemployment--first through the Emergency Jobs and Unemployment Assistance Act of 1974 and later through the Economic Stimulus Appropriation Act of 1977. Both programs were part of the Comprehensive Employment and Training Act (CETA). At the peak in 1978, the federal government provided $5.8 billion to states, localities, and nonprofit organizations to finance employment in such areas as law enforcement, education, transportation, and parks and recreation. Most of the PSE jobs were of short duration, however, lasting an average of about seven months. After their increase in the late 1970s, the PSE programs were cut back, but were retained as part of CETA. These programs were eliminated in the 1981 Reconciliation Act.

The types of people employed in PSE jobs, the wage levels paid, and thus the average federal cost per worker have all varied over time. The 1974 program provided jobs to persons who had been unemployed at least 30 days and to low-income persons who were working. In 1976, however, the program was more heavily targeted on low-income persons, in response to perceptions that too few jobs were going to those most in need and that too few of the PSE jobs represented net new employment. These restrictions were later relaxed to accommodate the rapid 1977-1978 program expansion. During the expansion, the number of jobs increased rapidly—an average monthly expansion of 40,000 jobs—and criticisms of fraud, abuse, avoidance of more disadvantaged persons, and job substitution arose again. In response, the 1978 CETA reauthorization increased the focus on the disadvantaged and reduced the maximum allowable wage level. In fiscal year 1981, each person-year of employment funded through PSE programs cost approximately $11,000 in federal outlays.

Evaluations of CETA PSE programs have generally concluded that many persons hired with federal funds would have been hired in any event—that is, the federal funds substituted for state and local funds that would otherwise have been spent. However, the extent of such fiscal substitution under PSE programs—or under any state and local grant program, for that matter—is difficult to assess. To the extent that substitution does occur, it reduces the short-term direct public employment effect of a program. In the long run, however, if states and localities substitute federal funds for their own resources, it permits them to increase other programs or to reduce their own revenue-raising efforts, both of which generate additional economic activity, and thus employment.5/

The federal government also funds separate public employment programs designed only for youth, but these programs have never been used explicitly as countercyclical devices. The largest of these is the Summer Youth Employment Program (SYEP), currently funded under CETA and to be continued under its successor program. SYEP has provided up to 800,000 jobs annually for economically disadvantaged youth in nine-week summer

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5/ The weight of the evidence suggests that, in PSE programs before the 1978 CETA reauthorization, between 20 and 60 percent of the federal funds substituted for state and local spending that would have occurred in any event. See U.S. Department of Labor, *The Implications for Fiscal Substitution and Occupational Displacement Under an Expanded CETA Title VI* (March 1979). Substitution probably decreased as program restrictions were strengthened in 1978.

work projects, at a cost of about $1,000 per job in 1983 dollars. Two smaller programs—which no longer exist—that provided public employment for youth are the Young Adult Conservation Corps (YACC), a year-round program, and the Youth Conservation Corps (YCC), a summer program. Neither of these programs was limited to the economically disadvantaged, and both typically involved moving youth from their homes to residential centers near conservation work. These two programs together provided more than 50,000 jobs in 1981, the last year in which they were funded. The cost per position in the full-year YACC program was $12,400 in 1981.

Youth programs provide employment opportunities that would not otherwise be available. By one estimate, at least two-thirds of the jobs represent additional job demand for disadvantaged youth, although the proportion of net job creation may be lower for other youth. There is no evidence that these programs contribute to the long-term employability of youth, however.

Policy Implications and Options

A new public employment program could increase short-term job opportunities in nonprofit organizations and government agencies, although the extent of net job creation in the short run is uncertain. The sorts of persons benefiting directly from any such program, the number of persons who could be hired, and the speed with which additional jobs could be made available would depend on the kinds of persons eligible for PSE jobs, the wage levels paid, and the sorts of services provided.

Restricting jobs to low-income persons or to persons who have been unemployed for a long period of time would focus aid on those with the greatest immediate need for income and on those hit hardest by the current recession. Such an approach could also mean that a greater proportion of the jobs would go to chronically disadvantaged persons, rather than to the cyclically unemployed. As the recession continues, however, and the cyclically unemployed deplete their financial resources, they might be more interested in short-term, low-wage employment. Targeting employment on low-income persons and on the long-term unemployed might slow the pace at which the positions could be filled, however, and would mean that a greater proportion of the additional services generated would have to be those that could be provided by relatively low-skilled workers.

Permissible wage levels under any public service employment program would also affect program outcomes. Placing low maximum wage limits on PSE jobs would permit a greater number of persons to be helped for the same federal expenditure, but would limit the kind of services that could be provided and the types of persons who would be interested in obtaining such jobs.

Finally, the services to be provided could be restricted directly. Restricting the kind of services would allow the federal government to expand the production of particularly valued public goods. On the other hand, narrowly restricting the range of eligible services might slow program implementation and--depending on the kinds of services prescribed--could make the jobs inaccessible to the lowest-skilled among the unemployed.

After a public service employment program was authorized and the administrative structure established, the jobs could probably be filled relatively quickly. Presently, however, an administrative structure does not exist, since the primary PSE programs were eliminated in the 1981 Reconciliation Act.

COUNTERCYCLICAL REVENUE SHARING

Another approach to increasing employment would be to provide unrestricted cash grants to states and localities. State and local governments would then be expected to use their countercyclical revenue sharing funds to increase expenditures or offset tax increases, thereby generating additional economic activity and employment.

Past Experience

Countercyclical revenue sharing has been provided previously through the Antirecession Fiscal Assistance (ARFA) program, which distributed over $3 billion between July 1976 and September 1978 to state and local governments located in areas of high unemployment.6/ During each quarter in which the national unemployment rate was 6.0 percent or higher, the ARFA program provided grants to states, counties, cities, and townships with unemployment above 4.5 percent.

In the short run, funds distributed under the ARFA program increased recipients' financial balances, with over half of the funds distributed in the first year and one-half remaining in balances at the end of that period. The full stimulus effects of ARFA on the economy were thus not felt until 1978, by which time economic recovery was well under way. Estimates are that by the end of 1978, 70 percent of the funds had been used to increase expenditures, 20 percent had been used to offset tax increases that would otherwise have taken place or to lower taxes, and the remaining 10 percent remained in balances. In general, state governments used funds to provide health and welfare support and education aid. Large counties used ARFA funds for health and welfare funding and public safety, while smaller

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6. This discussion of the ARFA program is drawn from: Peat, Marwick, Mitchell, and Co., **An Analysis of the Antirecession Fiscal Assistance Program**, prepared for the U.S. Department of the Treasury, Office of Revenue Sharing, April 1978.

counties supported public works projects and general government. City governments concentrated their funds on public safety and public works projects.

An evaluation of the ARFA program estimated that about 20,000 public-sector jobs were created or retained in assisted jurisdictions during the first half of 1977 as a result of the federal funds, with about 26,000 more jobs generated during the first half of 1978, at an overall cost of $85,000 per job-year in 1978 dollars. An estimated 5,000 to 7,000 additional private-sector jobs were created in the first half of 1977 as a result of the increased state and local purchases, with anywhere from 29,000 to 40,000 more private-sector jobs created in the first half of 1978.

Policy Implications and Options

In providing unrestricted funds to state and local governments, the federal government depends on recipients both to use funds quickly and to finance activities that lead to increases in overall employment levels. The experience of the ARFA program suggests that it may be difficult for states and localities to respond swiftly and in ways that are employment-intensive, however. In the past, recipients of ARFA funds had difficulty in using increased funds quickly, at least in part because of their decision-making schedules and the time required to revise previously-made budget plans. On the other hand, many state and local governments are currently experiencing significant budget constraints, due both to the cutbacks in federal grants and to the effects of the recession on revenues, suggesting that they would have an incentive to use additional funds quickly. Moreover, with unemployment levels expected to be high for some time, any slowness in responding might be a less important consideration this time.

Under this approach, state and local governments would have complete discretion in determining how to use additional funds, and their choices might or might not lead to large increases in employment. The federal government faces a tradeoff between ensuring that funds are spent in ways likely to lead to increased employment and allowing recipients discretion in allocating funds. The experience of the ARFA program suggests that when state and local governments are presented with unconstrained revenues they will use them in ways similar to their own revenues, rather than necessarily funding employment-intensive programs. Placing restrictions on the use of funds could affect the number of jobs created, but such restrictions would change the nature of the program.

If the Congress chose to fund fiscal assistance to states and localities as a means of stimulating employment, a number of program design decisions would have to be made. Among these would be when to start and stop the program, how to determine eligibility and funding levels for recipients, and whether or not to constrain recipients in their use of funds.

COUNTERCYCLICAL HOUSING SUBSIDIES

Another, quite different, approach to expanding employment opportunities would be to generate additional economic activity in the private sector through subsidies for the construction or purchase of housing.

Past Experience

Countercyclical housing subsidies were provided during the last recession through the Emergency Mortgage Purchase Assistance program—commonly referred to as the Brooke-Cranston program. Under the Brooke-Cranston program, established in 1974, the federal government purchased privately written below-market interest rate residential mortgages at close to face value and subsequently resold them as market-yield instruments—absorbing the price difference as a financing subsidy.

Between October 1974 and September 1976, the government issued commitments to purchase about $7.8 billion of mortgages for one- to four-unit homes and $5 billion of loans on larger multifamily projects. By September 1979, approximately $6.4 billion in mortgages on one- to four-unit structures and $2.4 billion in multifamily loans had been purchased—

accounting for 190,000 units in one- to four-family homes and 117,000 units in larger buildings. The interest rates on the one- to four-unit mortgages provided subsidies of between one and two percentage points at an average cost to the government of approximately $2,200 per loan. The loans for multifamily structures carried slightly larger subsidies.

It is difficult to gauge the effect that these subsidies had on new construction—and thus on employment. An evaluation by the General Accounting Office estimated that the single-family mortgage assistance program resulted in between 2,000 and 63,000 net additional construction starts in the short run, offset, in part, by reductions in later years.7/ The "best estimates" of five housing analysts were that the program resulted in from 18,000 to 35,000 net additional construction starts in the short run. The net construction impact of the Brooke-Cranston program was reduced by the fact that it became available after mortgage interest rates had already begun to decline. No estimates are available of the net construction effect of the multifamily mortgage assistance program.

Policy Implications and Options

Experience under the Brooke-Cranston program suggests that the timing of any countercyclical housing construction subsidy program may be

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7. General Accounting Office, What Was the Effect of the Emergency Housing Program on Single-Family Housing Construction? (November 21, 1976).

crucial to its impact. If aid was made available when mortgage interest rates were inhibiting new home purchases and construction, the financing subsidies could induce some persons to buy or build homes earlier than they might otherwise have, thereby spurring more construction activity at that time. If, on the other hand, mortgage assistance became available after interest rates had already declined to broadly affordable levels, then a greater share of the assistance would probably go to persons who would have purchased or constructed homes in any event.

Where the housing industry is now in the construction cycle—and, thus, what the short-term impact of any new stimulus would be—is difficult to assess. On the one hand, construction remains at severely depressed levels by historical standards. As of October 1982, private new home construction starts were occurring at an annual rate of about 1.1 million units—more than 40 percent below the most recent cyclical peak in 1978, and more than 35 percent below the average for the entire decade of the 1970s. On the other hand, construction starts have increased by about 30 percent within the last year. Also, a recent rise in building permits suggests that a further upswing in starts may be at hand. Finally, the decline in mortgage interest rates that has occurred over the last few months makes new home purchases more affordable and will probably spur some additional housing activity, even without federal subsidies.

If the Congress chooses to fund a countercyclical mortgage subsidy program, at least two general approaches are available.[8] First, the Brooke-Cranston program could be reauthorized and funded. Second, the Congress could provide short-term mortgage-interest-reduction payments, rather than a one-time buydown of the interest rate.[9] Because the Brooke-Cranston program has operated in the past, it might be implemented somewhat more rapidly. Once implemented, it would require a shorter administrative involvement between the federal government and private mortgage lenders and servicers. On the other hand, because the Brooke-Cranston approach provides a permanent interest subsidy, it could require a greater federal expenditure than the limited-duration mortgage-interest-reduction-payment approach to provide the same reduction in monthly mortgage payments in the early years of the loans. The eventual cost of assistance under the Brooke-Cranston program, however, would depend on the level of interest rates when the reduced-interest mortgages purchased by the government were eventually resold.

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8. For a more complete discussion of countercyclical housing assistance options, see General Accounting Office, **Symposium on Countercyclical Stimulus Proposals for Single-Family Housing** (1982), and **Symposium on Countercyclical Stimulus Proposals for Multifamily Housing** (1982).

9. A program that would have funded short-term mortgage-interest-reduction payments was included in a supplemental 1982 appropriations act that was passed by the 97th Congress and vetoed by the President.

Other program-design decisions that would have to be made include: the mix between assistance for single-family and multifamily structures, whether assistance should be limited to newly built homes, the size of the subsidy to be provided, what households should be eligible to receive assistance, and how the program should be terminated, or "triggered off." Generally, subsidies for the purchase of single-family homes might be translated into additional construction starts more rapidly than would aid for multifamily structures, because less time might be required for project planning. Similarly, limiting the aid to yet-to-be-built homes would probably maximize the short-term construction impact.

The size of any single-family mortgage subsidy, in conjunction with the eligibility criteria for participating households, might be especially important in determining the immediate construction impact of any program, as well as its cost. Providing a very small subsidy while setting high income-eligibility limits for participating households would reduce the average federal expense per household assisted but would probably direct a greater proportion of the aid to persons more likely to have bought homes in any event. By contrast, providing a larger subsidy while setting eligibility limits somewhat lower would increase the average federal expense, but might also direct a greater proportion of the aid to persons less likely to have bought homes without assistance. In neither event, however, would limited mortgage-interest subsidies alone make new homes affordable to low-income persons.

A final issue concerns whether provision should be made for any new countercyclical housing subsidy program to be triggered off automatically. Specific options include terminating assistance in the event either that market mortgage interest rates fall below some predetermined level or that housing starts rise above some threshold.

COUNTERCYCLICAL WAGE SUBSIDIES

Still another approach to expanding job opportunities would be to provide wage subsidies to private-sector employers hiring additional workers. Such a subsidy--which could be provided either through a tax credit or a voucher—would be intended to stimulate broad-based employment gains by reducing the cost of employing additional workers.

Past Experience

The New Jobs Tax Credit (NJTC)--enacted in 1977 and effective for the 1977 and 1978 tax years--is an example of a countercyclical employment tax credit.10/ The NJTC provided businesses a nonrefundable tax credit to 50 percent of the first $4,200 of wages per employee for increases in

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10. As discussed in Section V, employment tax credits can also be designed to aid persons suffering from structural employment problems. The Targeted Jobs Tax Credit—enacted in 1978 as a replacement for the NJTC—is an example of such a program.

employment of more than 2 percent over the previous year. Since the employer's business deduction for wages was reduced by the amount of the credit, the net credit to the employer (and the net revenue loss to the government) was lower than the maximum nominal credit of $2,100 per employee.11/

One study estimated that more than 3.2 million employees (representing about one-half of total private employment growth) were claimed under the credit during the two years of its existence, for a net revenue loss of $4.1 billion. However, according to this study, 50 percent or more of the new employment claimed under the credit would have occurred anyway.12/ In fact, in one survey only 6 percent of the firms contacted reported that their employment decisions had been altered by the availability of the credit—although more than half had claimed a credit for employment growth. That survey reported that for the great majority of all firms the most important consideration in hiring decisions was the level of product demand, rather than the marginal cost of labor. Employers were extremely

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11. How much lower the net credit was relative to the nominal credit depended on the employer's tax rate.

12. See John Bishop, "Employment in Construction and Distribution Industries: The Impact of the New Jobs Tax Credit," Institute for Research on Poverty, Discussion Paper No. 601-80 (April 1980).

reluctant to increase hiring in response to the credit without confidence that the additional output produced could be sold for a profit.13/

Policy Implications and Options

An employment tax credit has both advantages and potential shortcomings as a countercyclical measure. On the one hand, a credit can be implemented quickly and made applicable only for hiring during specified time periods, with little additional administrative burden for the federal government apart from advertising the credit's availability. On the other hand, the potential for net job creation from a general employment tax credit is uncertain. Experience with the NJTC indicates that the credit was a windfall to employers for at least 50 percent and perhaps up to 95 percent of the employment claimed. This implies that the average net federal revenue loss per job created as a result of the credit could range from a low of [illegible] to about [illegible] annually.

Making a tax credit refundable might increase induced employment, because at the time employers made their hiring decisions they could be certain of benefiting from the credit regardless of the extent of their eventual tax liability. Refundability would, however, increase the government's revenue loss.

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13. See Robert Tannenwald, "Evidence Concerning the Effects of the New Jobs Tax Credit: Interviews and NFIB Survey," unpublished paper.

Another option would be to provide a wage subsidy by allowing the recipients of Extended Unemployment Insurance Benefits to transfer their entitlements to vouchers payable to their new employers.[14] The voucher could be redeemable on a portion of the worker's wage over several months of employment to insure that the new jobs were not short-term ones. Such a voucher system would be similar to a refundable employment tax credit in that it might generate additional employment by reducing overall labor costs to a firm. In contrast to a universally available tax credit though, some of the employment gain under a voucher could come at the expense either of other unemployed workers without vouchers or of present employees. A voucher program based on Extended Benefits would probably involve no net federal cost, because eligible workers have already been unemployed for 26 weeks or more, so the payments would almost certainly have to be made in the form of UI benefits were the vouchers not available.

UNEMPLOYMENT INSURANCE

Altering the Unemployment Insurance (UI) program is another means of aiding unemployed persons. Although some changes could be made that might increase employment prospects for the jobless—such as using UI benefits as a wage subsidy, as discussed earlier—the principal objective of UI is to replace a portion of lost earnings.

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[14] The current Unemployment Insurance system is described briefly in the next section.

The Current Program

Currently, Unemployment Insurance is the major income support program for workers who have lost their jobs. A joint federal-state system, UI currently provides partial income replacement for up to between 32 weeks and nearly one year for unemployed persons who meet certain minimum previous-work-experience criteria and who can demonstrate that they are seeking employment. The benefits paid depend on a recipient's previous employment and on state laws. The present average weekly benefit is approximately $115.

There are currently three layers of UI covering progressively longer periods of unemployment. Regular UI is financed entirely by the states and is available for up to 26 weeks. Extended Benefits (EB)--financed equally by the federal and state governments--are available for up to an additional 13 weeks when unemployment in a state exceeds certain thresholds. The third layer of benefits is Federal Supplemental Compensation--authorized in October 1982 and available through March 1983. These benefits--which are financed entirely by general federal revenues--are available for up to six to ten weeks, depending on the state unemployment rate, and are paid even in states in which Extended Benefits are not available. In October 1982, approximately four million persons were receiving regular UI benefits; an additional 475,000 were receiving Extended Benefits; and about 800,000 were receiving Federal Supplemental Compensation.

Policy Options

Although UI is primarily an income support program, certain changes could be made that would provide additional flexibility in dealing with unemployment. Changes could be made that might help recipients to relocate or obtain training; spread the costs of joblessness among a larger number of workers; or provide extended support to a larger number of the unemployed. Because recent high joblessness has caused serious financial strains for the UI system, however, any increases in benefits not financed with additional revenues would only worsen that situation.

Using UI Funds to Promote Relocation or Training. One change in the UI system would be to allow Extended Benefit recipients to receive their entitlements as lump-sum payments that could be used either for relocation to an area with lower unemployment or for training. While UI benefits can now be transferred from one state to another if the recipient moves, after several weeks of unemployment a jobless worker may lack the funds necessary to relocate. The lump-sum cash benefit could provide these funds. Alternatively, the lump-sum payment could be used to pay for training. In either case, however, if the worker remained unemployed for some additional time, the lack of weekly UI benefits could cause severe hardships.

Sharing the Costs of Unemployment. A second approach would be for the federal government to encourage and work with states to implement so-called "work sharing" programs, such as those developed in Arizona, California, and Oregon. These plans allow certain employers to reduce staff hours across the board rather than laying some people off entirely, and then permit employees to draw pro-rated UI benefits for the lost hours. Under such a plan, instead of 10 percent of a firm's employees being laid off, for example, each employee's hours could be reduced by 10 percent, with each worker then receiving 10 percent of his or her full UI benefit. The Tax Equity and Fiscal Responsibility Act of 1982 directed the Department of Labor to develop model legislation for state work-sharing programs, and additional support could be provided to help states develop and enact such programs quickly.

This option would permit small income reductions for many workers rather than a complete loss of earned income for a few workers. Preliminary evidence indicates that this type of plan has been successful in California. In order to extend the plan beyond Arizona, California, and Oregon, however, other states' laws that prohibit persons who work more than some minimum amount from receiving UI would have to be changed. Also, substantial labor-management cooperation would be required to make the plan work widely.

Extending the Duration of UI Benefits. With current high unemployment reducing the chances of jobless workers finding employment, the federal government could increase the duration of UI benefits to provide additional support to the long-term unemployed. This could be done in several ways, including: extending the March 31, 1983, termination date for the Federal Supplemental program; increasing the maximum duration of those benefits; or repealing some of the recent legislative changes affecting the availability of Extended Benefits. In each case, however, the additional benefits would have to be financed through higher taxes or a higher federal deficit, since the UI system is already facing financial difficulties.

Reauthorizing the Federal Supplemental Compensation program for six additional months through the end of fiscal year 1983 would cost approximately $2 billion and would provide additional benefits for nearly two million long-term unemployed workers. Increasing the maximum duration of Federal Supplemental Compensation to 8-15 weeks, instead, would increase UI outlays by $700 million. Reducing to their pre-1982 levels the unemployment thresholds above which states may provide Extended Benefits would add about $800 million to UI outlays if implemented for all of fiscal year 1983, and would provide additional benefits to about one million persons.

V. OPTIONS FOR ADDRESSING STRUCTURAL EMPLOYMENT PROBLEMS

Even after the economy has recovered from the present recession, two groups will likely continue to experience labor market problems: disadvantaged persons and dislocated workers. Disadvantaged persons include low-income individuals with little recent work experience and those who have worked previously but with chronically low earnings. Dislocated workers consist of skilled persons who had previously worked but who have been displaced by structural economic changes.

The primary goal of policies to assist the structurally unemployed is to increase their long-term employability, rather than merely to expand immediate job opportunities. However, without broad economic recovery, targeted assistance designed to increase the employability of these groups would have little effect on their job prospects.

Several federal policy tools to aid these persons are now in place. Consequently, the principal question in addressing structural unemployment is more one of how available discretion in present programs might be exercised and what changes might be made in those programs, rather than what new forms of assistance are needed.

The Job Training Partnership Act (JTPA)--which was enacted in October 1982 as a replacement for the expiring Comprehensive Employment and Training Act (CETA)--provides for state- and locally-administered training, job-search assistance, and related activities for both disadvantaged and dislocated workers. The JTPA also authorizes federally-administered aid to selected groups, including the Job Corps program for disadvantaged youth. During fiscal year 1983, training programs will begin shifting from CETA to the JTPA, which becomes fully operational in 1984. In addition to JTPA, the Targeted Jobs Tax Credit (TJTC)--which is now in place and fully operational--provides wage subsidies to employers hiring members of seven groups of disadvantaged youth and adults.

AIDING DISADVANTAGED PERSONS

Low-income persons who have never worked or have not worked for a long time, and persons who have been employed but with chronically low earnings, may suffer long-term employment problems. This group--referred to here as disadvantaged persons--is quite large. In fiscal year 1980, for example, at least 16 million persons were eligible for CETA comprehensive training programs--a group that included members of families receiving public assistance and other low-income persons. Of that total, about 35 percent were young persons between the ages of 14 and 21.

In the past, disadvantaged persons have been assisted both through training and job search assistance efforts and through targeted wage subsidies.

Training Programs and Job Search Assistance

Since 1974, the CETA program has provided classroom training, on-the-job training, and work experience to disadvantaged adults and youth, while also offering them such job-related services as counseling, education, and placement activities. In 1982, the federal government provided $4.4 billion through training and job-search programs to assist about two million disadvantaged persons. [1]

Past Experience. A joint CBO-National Commission for Employment Policy study indicates that, for adults, CETA training programs appreciably increased the average earnings of women--principally by increasing their labor force participation and hours worked--but did not seem to increase the average earnings of men, who had stronger initial labor force attachments but were likely to have chronically low earnings. [2] Similar results were

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1. Funding figure includes CETA employment and training programs and the Work Incentive program. Placement services provided through the Employment Service are not included.

2. See CBO and NCEP, *CETA Training Programs--Do They Work for Adults?* (July 1982).

found for CETA training provided in a classroom setting, on-the-job, or through subsidized work experience. All these programs increased women's average annual earnings by between $800 and $1,300, at a federal cost of about $2,400 per participant, in 1980 dollars.

Training programs for youth can also be effective at increasing employability under certain circumstances. On the one hand, most CETA programs for youth--which are administered by local governments or nonprofit organizations and provide primarily work experience--do not appear to increase employability appreciably. On the other hand, the federally-administered Job Corps program—which provides an intensive program of remedial education and vocational training at a much higher average annual federal cost—apparently is effective at enhancing the long-term employment prospects for some youth. 3/ No nationwide evidence is available on the effectiveness for youth of locally-administered CETA classroom or on-the-job training programs, which are generally less intensive than Job Corps programs.

For those among the disadvantaged population who are job-ready—that is, who have entry-level skills--job search assistance alone might be beneficial. Such assistance can take the form of job referrals--locating

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3. Congressional Budget Office, **Improving Youth Employment Prospects: Issues and Options** (February 1982).

and developing job openings and matching job seekers with openings; or job search instruction, which involves teaching people how to look for jobs on their own.

Available evidence suggests that job search instruction can be an effective addition to referral services, by enabling jobseekers to be more active and effective participants in the placement process. Job search instruction programs have resulted in significantly higher placement rates for disadvantaged workers, including welfare mothers and low-income youth, compared to similar workers who did not receive instruction. The gains from job search instruction programs are due primarily to reductions in the time jobseekers take to find a job, however, rather than increases in the probability of ultimately finding a job. Over the long term, the employment rate among groups who receive job search instruction may not be very different from the employment rate among similar groups of persons who do not receive job search instruction. 4/

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4. See Elise Bruml and John Cheston, "Placement Assistance in the ES, WIN and CETA" (paper funded in part from U.S. Department of Labor, March 1982), and Elise Bruml, "Self-Directed Group Job Search: The Results" (unpublished paper, U.S. Department of Labor, July 13, 1981).

Policy Implications and Options. Evidence from past programs suggests that different approaches might be used in aiding different groups of disadvantaged persons.

For adults with little previous work experience, it appears that the sort of training provided through CETA--short-term, entry-level training--can increase future earnings, principally by increasing hours worked. What is less clear is whether job search assistance alone—which could be provided at a much lower cost--would be just as effective. If the effect of training programs is primarily to facilitate entry or reentry into the labor market, job search assistance alone might be as helpful. If, on the other hand, training is essential to that entry or reentry process, job search assistance alone would not achieve as good results as past training programs.

For adults with more extensive previous work histories but with chronically low earnings, findings from the CETA evaluation suggest that more extensive, and thus more expensive, training would probably be required to increase their future wages. In other words, in order to keep expenditures constant, resources might have to be concentrated on fewer people. While the potential benefit of more extensive training is uncertain, results from a CETA demonstration project—the Skill Training Improvement

Program—suggest that training for more highly skilled jobs might yield positive results, but at an appreciably higher cost. 5/

Finally, for disadvantaged youth, the problem appears to be a lack of previous work experience and--for many--a lack of marketable skills as well. For those youth who possess at least minimal marketable skills, job search assistance alone may be sufficient to ease the transition to the world of work. For the least prepared youth, however, remedial education coupled with vocational training would be necessary.

Most of the above services are currently provided under CETA could be provided under the new JTPA. Title II of JTPA can finance state and local training programs for disadvantaged adults and youth, with increased private-sector involvement. Title IV of JTPA provides for federally-administered aid for selected groups, including continuing the Job Corps program for youth. JTPA differs somewhat from current CETA programs by requiring that those welfare recipients who must register for employment and training services be served in proportion to their share of the eligible population. The new act also limits the use of work experience programs and restricts the payment of allowances to trainees. The effects of these

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5. See Abt Associates, Inc., STIP: CETA and the Private Sector (prepared for U.S. Department of Labor, September 1979).

changes on future training programs will depend largely on state and local decision making. The number of persons served will depend both on program-design decisions and on the level of federal funding.

Targeted Wage Subsidies

Providing targeted wage subsidies through tax credits for employers who hire disadvantaged persons is another approach to expanding their employment opportunities. Such tax credits are designed to increase the demand for selected workers by reducing their costs to employers, rather than increasing their job skills or facilitating the job-search process. Because tax credits do not improve workers' skills, their success depends on the workers being at least minimally attractive to employers, however.

Past Experience. Employment tax credits are now available for some disadvantaged groups through the Targeted Jobs Tax Credit (TJTC). The TJTC--enacted in 1978--provides a 50 percent credit for the first $6,000 of wages paid to target group employees in their first year of employment, and a 25 percent credit for the first $6,000 of wages paid in their second year. Since the credit reduces the business deduction for wages paid, however, the maximum net credit is $2,580 in the first year and $1,290 in the second year of employment. The groups currently eligible for the TJTC include economically disadvantaged youth (aged 18-24); economically disadvantaged cooperative education students (aged 16-19); persons referred from vocational rehabilitation programs; economically disadvantaged Vietnam veterans; economically disadvantaged ex-convicts; public assistance recipients; and employees who were involuntarily terminated from CETA jobs. In addition, a credit of 85 percent of the first $3,000 in wages paid to economically disadvantaged youth (aged 16-17) for summer employment will be available beginning in May 1983.

In fiscal year 1981, more than 400,000 employees were certified under the TJTC. About half of those certified in 1981 were cooperative education students who are no longer eligible for the credit unless they are economically disadvantaged. Of the remaining employees claimed under the credit--mostly disadvantaged youth--about two-thirds were certified retroactively, that is, after they had already been hired. This practice is no longer permitted. Less than 5 percent of the eligible disadvantaged youth hired in 1981 were claimed under the TJTC.

It is estimated that, before the elimination of retroactive certification, only about 18 percent of the employees claimed under the TJTC (excluding cooperative education students) represented new job demand for targeted groups; the remaining claims represented windfall gains for the employers. Without retroactive certification, the potential for windfall gains from the credit is probably reduced, but this may also further reduce the already low rate of use by employers. [6] Further, any new job demand for targeted groups may come at the expense of ineligible workers, since the reduction in overall labor costs resulting from the TJTC is probably too small to have any appreciable effect on total employment demand.

Policy Implications and Options. Employment tax credits have both advantages and drawbacks as devices for aiding disadvantaged persons. On the one hand, tax credits are fairly easy to administer and, unlike appropriated training and job-search programs, are available to all members of selected groups. On the other hand, evidence from the TJTC suggests that a substantial proportion of the employees claimed under the credit would have been hired in the absence of the subsidy. Also, because tax credits are generally entitlements, the eventual cost to the federal government cannot be known in advance—nor can the cost be controlled without further changes to the authorizing legislation once the target groups have been identified.

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6. If only 18 percent of hiring under the TJTC resulted in new job demand for targeted groups, it is estimated that the average cost (in terms of federal revenue losses) of creating a full-year full-time job was about $10,800. If the proportion of employees claimed that represents new job demand has increased, say to 36 percent, as the result of the elimination of retroactive certification, the average federal cost per job slot has fallen to $5,400. See CBO, **Improving Youth Employment Prospects: Issues and Options** (February 1982).

Several changes could be made in the TJTC that might increase its use--and, thus, net job creation--but all the changes would increase the revenue loss to the federal government as well. The federal government could, for example, make the tax credit refundable, so that even employers who expect to have no tax liability for the year would benefit from it. In addition, the size of the credit could be increased. The effect of such changes on the total demand for labor is uncertain.

Another approach would be to increase the value of the tax credit to employers on the condition that they help finance training for disadvantaged workers. Such a credit might have to be quite large--and therefore costly--to provide a sufficient incentive for employers to participate. To the extent that employers did participate, however, such a program might help enhance the long-term employability of disadvantaged persons, rather than only marginally increasing their immediate job prospects.

AIDING DISLOCATED WORKERS

Dislocated workers--those who have been displaced by structural changes in the economy and are unlikely to return to their former jobs--constitute another group of structurally unemployed persons. For these workers, the problem is a reduction in the demand for their skills, rather than a lack of previous labor force attachment.

The Sources and Magnitude of Dislocation

Disparities in growth rates among major sectors of the economy and the modernization of production through labor-saving technology will both contribute to worker dislocation in the 1980s. Industries such as automobiles, steel, rubber, textiles, and wearing apparel—which together employed one-third of all manufacturing workers in 1979—have grown slowly or actually declined in recent years and are expected to continue to lag through this decade. Modernization of basic manufacturing industries, mainly through technology that requires a reduced labor input, will further contribute to displacement. Although such modernization could improve the competitive position of these industries and ultimately lead to some additional employment opportunities, displacement is still likely to occur because the new plant and equipment will require less labor for production. Some analysts, for example, have estimated that automation could eliminate 200,000 jobs in the automobile industry by 1985. In addition, recent studies estimate that microelectronic technology—robots, in particular—could replace 3 million to 7 million manufacturing jobs by the year 2000.

According to most studies of plant shutdowns and automation, dislocated workers tend to be older blue-collar workers with substantial job experience and less formal education. A number of factors make adjustment difficult for many of these workers. Much of their earnings and benefits are attributable to firm-specific skills and seniority that are not readily transferrable to other jobs. These workers also tend to have been insulated from the labor market and to know little about job openings, skills in demand, and institutions to aid unemployed workers. These factors often lead to difficulty in accepting their new circumstances and to unrealistic aspirations for new jobs. Moreover, job search skills often erode with time on the job--particularly for blue-collar workers who usually do not search for work while employed. Finally, many financial and nonfinancial factors inhibit these workers from relocating to geographic areas where jobs exist.

The number of workers likely to be dislocated in the near future depends on the definition of dislocation used and on future economic conditions. CBO has estimated the likely number of dislocated workers in January 1983 under a variety of definitions related to dislocation--age, job tenure, industry, occupation, and length of unemployment--and different assumptions regarding economic trends. Applying several definitions, the number of dislocated workes in 1983 could range from 185,000 to 2.2 million--or from nearly 2 percent to 20 percent of all unemployed workers (see Table 2).

TABLE 2. ESTIMATED NUMBER OF DISLOCATED WORKERS IN JANUARY 1983 UNDER ALTERNATIVE ELIGIBILITY STANDARDS AND ECONOMIC ASSUMPTIONS (In thousands)

Eligibility Criteria	Number of Workers [a]
SINGLE CRITERIA	
Declining Industry	1,240 - 1,590
Declining Occupation	1,700 - 2,200
Ten Years or More of Job Tenure	840 - 1,200
More than 45 Years of Age	1,120 - 1,370
More than 26 Weeks of Unemployment	840 - 1,200
MULTIPLE CRITERIA	
Declining Industry and:	
Ten years' job tenure	270 - 330
45 or more years of age	270 - 340
26 weeks of unemployment	185 - 240
Declining Occupation and:	
Ten years' job tenure	300 - 390
45 or more years of age	390 - 520
26 weeks of unemployment	310 - 490
Mass Layoff and Plant Closing	1,090 - 1,400

SOURCES: Congressional Budget Office estimates based on tabulations from the March 1982 Current Population Survey.

a. The range reflects a variety of assumptions related to general economic conditions and to patterns of growth among different sectors of the economy.

Options for Assisting Dislocated Workers

Three general approaches are available for aiding dislocated workers--providing services directly to the workers to help them find new employment; subsidizing their wages to encourage employers to hire and, if necessary, retrain them; and providing additional income to support them while they adjust to their new circumstances.

Adjustment Services. Several different services might be provided to aid dislocated workers in finding jobs. Job search assistance--including labor market information, job-search training, and counseling--might help dislocated workers accept their new circumstances and find new employment. For some workers, training could help them acquire new skills that are in demand. Finally, relocation assistance--in the form of subsidized expenses and inter-area labor market information--might encourage workers to relocate to geographic areas in which there are job openings.

Information on the success of adjustment services is limited. Preliminary evidence suggests that job search assistance alone may shorten unemployment, on average, by between two and three weeks--resulting in Unemployment Insurance savings that more than offset the average cost of less than $100 for search assistance. 7/ Although the effect of retraining is

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7. See CBO, Dislocated Workers: Issues and Federal Options (July 1982).

unknown, recent studies of plant closings suggest that it will only be successful when it is customized for existing job openings that are identified beforehand. [8] Finally, a U.S. Department of Labor demonstration project found that local employment offices that provided a combination of job search grants, financial assistance, and inter-area job information were successful at encouraging members of such typically less mobile groups as blue collar workers with less than a high school education to relocate for employment. [9]

Most of these services are now authorized to begin in October 1983 under Title III of the Job Training Partnership Act, although no funds have yet been appropriated. Under that title, states--with the assistance of Private Industry Councils, if the state chooses to use them--will identify groups of dislocated workers and determine what, if any, job opportunities exist for which the individuals could be trained. Funds provided to states may be used to provide job search assistance (including job clubs), job development, training, pre-layoff assistance, relocation assistance, and early joint employer-labor intervention in the event of a plant closing. In order to qualify for assistance under Title III, states must expend an amount

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8. U.S. Department of Labor, **Plant Closings: What Can Be Learned from Best Practice** (November 1982).

9. See Westat, Inc., **Job Search and Relocation Assistance Pilot Project (JSRA): Final Report,** prepared by the Office of Policy, Evaluation, and Research, Employment and Training Administration, U.S. Department of Labor (August 1981).

of their own resources equal to the federal funds made available. The nonfederal matching funds can include the direct cost of employment and training services provided by the state and local governments and private institutions. Funds spent on unemployment insurance for eligible individuals who are in a training program may be credited for up to 50 percent of the states' required expenditure.

The number of people who could be served under Title III will depend on the level of appropriations and on the mix of services provided locally. The CBO estimates that job search assistance would cost approximately $90 per worker for traditional methods and $500 per worker for job clubs. Relocation assistance is estimated to cost an average of $1,200 per family, with retraining requiring $2,500 per person. Assuming that all workers receive job search assistance, 5 percent receive relocation aid, and 50 percent receive training (based on the experiences of recent pilot projects), assistance under Title III of the JTPA would cost an average of approximately $2,000 per eligible worker, including administrative costs. If half of that amount were paid from state matching funds, 100,000 workers could be aided per $100 million in federal funds.

One specific option being considered by the Congress is to provide immediate appropriations for the dislocated worker program under Title III.

Such funding would allow the program to be implemented in fiscal year 1983 rather than delayed until 1984. Although accelerating program implementation might not secure employment for many dislocated workers in the short run because of the limited availability of jobs, early implementation might result in a somewhat quicker reduction in unemployment as the recovery begins, since dislocated workers could be ready to fill jobs as they became available.

To use whatever funds are provided most effectively, states might offer different services to different dislocated workers. One approach would be to sequence the services. Job search assistance--the least costly--could be provided to all program participants. Those still without new jobs could then be offered relocation aid. Finally, training--the mostly costly service--might be provided to those workers whose present skills are not in demand either where they now live or in other labor markets.

Wage Subsidies. A second general approach to aiding dislocated workers would be to subsidize their wages--perhaps through targeted employment tax credits. This approach would reduce employers' net costs for hiring dislocated workers, thereby presumably encouraging some employers to hire them even if their existing job skills did not precisely match their new employers' immediate needs.

If the Congress did choose to enact a tax credit for dislocated workers, it could do so fairly easily by amending the TJTC to include dislocated workers among the eligible groups, but the newly eligible group would have to be defined specifically in the statute. Once in place, such a credit would also be easy to administer and might lead some employers to retrain dislocated workers after they were hired. On the other hand, experience under the TJTC suggests that limited wage subsidies might do little to affect employers' hiring decisions if the prospective workers were not already attractive job candidates. To the extent that a tax credit targeted on dislocated workers was used to subsidize the wages of people who would have been hired in any event, it would merely represent a windfall to employers without generating new employment. Unless they were restricted from doing so, firms might even use such a credit to hire new employees rather than rehiring previous employees laid off during the recession.

Additional Income Replacement. A third approach to aiding dislocated workers would be simply to provide them with additional income support--beyond what is now available through Unemployment Insurance. Such an approach would provide greater support during readjustment but would do nothing to enhance workers' marketability for new employment. Indeed, extended income replacement might actually cause some workers to postpone the readjustment process.

One specific option that has been proposed would be to provide dislocated workers with federally financed supplemental UI benefits of perhaps 10 additional weeks. If this approach was adopted, receipt of the supplemental benefits might be made conditional on workers also accepting job search assistance, relocation aid, or retraining to ease their transition to new employment.

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RECESSIONARY LABOR MARKET CHANGES AND REMEDIAL PROGRAMS

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PREFACE

The report which follows was prepared in July 1980 in response to the economic downturn of that year. Since that time, significant tax legislation has been enacted by the Congress, dating the analysis in this report. Similarly, estimates of the relationship between the unemployment rate and the Federal deficit have been updated since the writing of this report. The discussion on countercyclical jobs programs, however, is relatively not dated and can serve as good background for the various proposals currently under consideration.

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RECESSIONARY LABOR MARKET CHANGES AND REMEDIAL PROGRAMS

I. THE 1980 RECESSION: ITS EFFECT ON THE LABOR FORCE

January 1980 marked the peak of the Nation's most current economic expansion and the beginning of its seventh postwar recession. Civilian employment, however, did not peak until a month later in February. Since the onset of the recession (as of June 1980) the number of individuals unemployed has increased by more than approximately 1.6 million. Of these, about 4 percent reflect new entrants and re-entrants into the labor force, about 7 percent job quitters, more than 61 percent laid-off workers, and nearly 28 percent other job losers.

The Bureau of Labor Statistics survey of nonfarm employers shows that payroll jobs declined by nearly 1.1 million since the number of jobs peaked in February. The increase of 158,000 jobs in the service sector was not nearly enough to counteract the decline of 988,000 jobs in the manufacturing sector; 446,000 of these jobs or 45 percent took place in the transportation equipment, primary metal and fabricated metal products industries. In addition, construction payrolls have declined by 282,000 workers since February.

When the recession started, however, the Nation was suffering from substantial structural unemployment. In January 1980 the overall national unemployment rate was 6.2 percent as opposed to 4.8 percent at the previous economic peak in November 1973. The black and other unemployment rate was 11.8 percent in January 1980 as opposed to 8.9 percent in November 1973 and the black and other teenage unemployment rate was 34.6 percent in January 1980 as opposed to 29.5 percent in November 1973. Even for whites the unemployment rates were somewhat higher at the beginning of this recession than the beginning of the 1973-1975 recession. (Total white unemployment rate in January 1980 was 5.4 percent, in November 1973 4.3 percent; for white teenagers 14.0 percent in January 1980, 13.2 percent in November 1973). These figures indicate that those groups who have historically suffered from high rates of unemployment were not sufficiently aided by the economic expansion from March 1975 to January 1980 to reduce their unemployment to prerecession levels; instead, their employment situation actually deteriorated.

While the current economic downswing has affected the more stable sectors of the labor market, those groups with traditionally high rates of unemployment will find their problems intensified. For example, the black and other unemployment rate has already climbed 1.8 percentage points from January to June 1980 (11.8 to 13.6 percent). In the discussion which follows, it is therefore extremely important to keep in mind the underlying structural unemployment problems plaguing the Nation. While certain traditionally low unemployment groups may be currently suffering from cyclical unemployment, traditionally high unemployment groups will find themselves at even more of a disadvantage. Consequently, any job creation proposal put forth by the Congress, in order to be comprehensive and responsive to American workers' needs, would include both countercyclical and structural components.

A. Who Are the Cyclically Unemployed?

While the rolls of the unemployed have increased by more than 1.6 million individuals since January, it is crucial, in terms of determining appropriate policy measures, to disaggregate this group by age, sex, race, occupation, and industry.

1. Age and Sex

The number of unemployed teenagers (16-19 year olds) increased by 155,000, accounting for 9.8 percent of the January to June increase in unemployment; the number of 20 to 24 year olds unemployed increased by 344,000 (21.8 percent of the increase); the number of 25 to 54 year olds unemployed increased by 1,082,000 (68.4 percent of the total increase); and the number of 55 year olds and over unemployed actually decreased by 4,000. Thus, prime-aged workers (25 to 54 year olds) clearly constitute the largest proportion of the increase in unemployed workers.

The number of unemployed men (age 16 and over) increased by nearly 1.3 million since the beginning of the recession, or by 37.6 percent. Men aged 25 to 54, prime age males who experience the most stable employment patterns of any demographic group, increased their number of unemployed by 807,000 and account for 63 percent of the male unemployment increase. Male youth aged 20-24 increased their number of unemployed by nearly one-third (278,000) while male teenagers (16-19 year olds) increased their numbers of unemployed by 18 percent (144,000). What these statistics show is that prime age males have borne the brunt of the recession so far.

Unemployment for women 16 years old and over has increased by only 10 percent (less than one third the percentage increase for men) since January 1980 (303,000). While prime age females increased their number of unemployed by just under 20 percent, they account for 91 percent of the increase in female unemployment (276,000). Female youth ages 20-24 increased their unemployment by 9.7 percent (67,000) and female teenagers by 1.5 percent (11,000). Thus, similar to males, prime age female workers have been the hardest hit group.

2. Race

Of the total increase in the number of unemployed since January 1980, 85 percent have been whites and 15 percent blacks and others. White males 20 years old and over account for nearly 60 percent of the unemployment increase since the recession began. On the other hand, black males 20 years old and over account for only 11.6 percent of the increase (their level of unemployment increasing by nearly one-third since January). White females aged 20 years old and over account for 15.4 percent of the unemployment increase (their unemployment level increasing by about one-seventh) and black females of the same age group 3.4 percent of the increase (their unemployment level increasing by about one-tenth). In the case of teenagers (16-19 year olds) whites accounted for 10.1 percent of the total increase, increasing their unemployment level by 13.5 percent while blacks actually reduced their number of unemployed by 16,000. Thus, the recession to date has caused the most increase in unemployment among white adult men.

3. Occupation and Industry

Workers in the construction and durable goods manufacturing industries (such as automobiles, lumber, rubber, primary metals, and metal fabrication) have accounted for more than 56 percent of the increase in the number of unemployed individuals since January. Construction unemployed increased by nearly 50 percent while the number of unemployed durable goods workers increased by approximately two-thirds. Nondurable goods manufacturing has not been as severely hit with its number of unemployed increasing by about 18 percent since the recession began. All of the remaining major industries have also increased their number of unemployed except for government and agricultural wage and salary workers. These include (in order of unemployment impact) finance and service industries, wholesale and retail trade, transportation and public and utilities.

The concentration of joblessness in durable manufacturing can be seen by the unemployment rate changes for the large industrial States. Michigan's unemployment rate increased from 9.5 percent in January 1980 to 14.4 percent in May 1980, the State's highest rate ever. However, the rate did decline to 14.1 percent in June. New Jersey's unemployment rate increased from 5.4 percent to 8.4 percent, Ohio's from 6.1 to 9.4 percent, and Pennsylvannia's from 6.8 to 8.3 percent from February to May 1980. While both New Jersey and Pennsylvania had unemployment rate declines in June (to 7.9 and 7.7 percent respectively), Ohio's unemployment continued to climb to 9.7 percent in June.

On an occupational basis, blue-collar workers have been hardest hit by unemployment. This group constitutes more than 75 percent of the workers who have become unemployed since the beginning of the recession. Crafts and kindred workers and nontransport operatives (primarily machine operators) make up the vast majority of the unemployed blue collar group.

B. Regional Shifts

From the trends discernible so far, there appears to be a shift in the regions which will be hardest hit by the current recession as opposed to the 1973-1975 recession. These changes are primarily the consequence of industry shifts since 1975. Reduced textile manufacturing (relatively sensitive to cyclical fluctuations) and increased electronics manufacturing in the Northeast have made this area less likely to suffer from as high a jobless rate as in the 1973-1975 recession. The current growth in micro computers and defense-related hardware orders should keep unemployment fairly stable in this area. In addition autos, steel, rubber and residential construction — the industries experiencing the most difficulty so far -- are less important in New England than nationally.

The Great Lakes or North Central region will clearly bear a major portion of the burden of the current recession. In May the unemployment rate in Michigan was 14.4 percent, the highest rate recorded in the State since the Bureau of Labor Statistics began gathering State data, and 9.4 percent in Ohio. These States' heavy dependence upon automobile and other durable manufacturing will make the impact of the recession here more severe than usual.

The growth of mining in the mountainous States of the West makes this region more sensitive to fluctuations in demand than it was five years ago. In addition, housing starts for the first five months of 1980 at an annual rate are about 50 percent or more below the number of starts in 1979. This decline affects not only the West's construction industry but also impacts heavily on the Pacific Northwest's lumber industry. The Pacific region's dependence on cyclically sensitive heavy manufacturing industries, however, is low. Instead the region has increasingly specialized in light manufacturing and particularly the production of high technology goods. The worldwide demand for these goods should aid the region despite the national downturn in manufacturing. Furthermore, in the past California's diversified economy and Washington State's aerospace and defense industries have served to cushion the cyclical impact of recessions in construction and lumber. This cushion is expected to aid the region again during this recession.

As noted above the West and Mountain regions have been experiencing employment expansion as a result of mining and energy related development. Fast growing areas often attract workers seeking job opportunities. To the extent that the civilian labor force expands more rapidly than the number of jobs being created, increases in unemployment will result. The Bureau of Labor Statistics

D. Financial Burden of the Recession

Cushions already exist in the economic system to help job losers avoid extreme financial hardship. However, there is not currently any mechanism available to determine which unemployed workers have some adequate protection against recession and which will require some types of additional assistance.

As noted above, a high proportion of the workers who have lost their jobs since January are in the automobile, steel, rubber, and construction industries. Through the collective bargaining process workers in these industries, except construction, have negotiated supplemental unemployment benefits. In addition, government benefits such as unemployment insurance, food stamps, Social Security, Trade Adjustment Assistance and Medicaid have expanded in the last decade. Finally, an increasing number of households have more than one worker as a result of the large number of women who entered the labor force over the last decade.

1. Supplemental Unemployment Benefits

Automobile, steel, and rubber workers have negotiated contracts that include what are known as supplemental unemployment benefits or SUBS. These programs are applicable only to members of the United Auto Workers, the United Steelworkers, and the United Rubber Workers. Individuals who supply materials to these workers are not covered by SUBs unless they are members of these unions. While SUB provisions vary across industries, generally employers contribute several cents for each hour worked into a special fund designed to supplement State unemployment insurance benefits during layoffs. The status of these funds, however, differ across and within the three industries.

In the automobile industry SUB plans call for payment of an amount which, when combined with State unemployment benefits, equals 95 percent of take-home pay, less $12.50 per week for work-related expenses that are not incurred. An auto worker must work one year after which he/she becomes eligible for SUB

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The automobile SUB also has a provision allowing for a 20 percent reduction in benefits if the fund should fall below a certain level. In early July Ford Motor Company announced it would limit its SUB to its autoworkers with 10 or more years of service. On July 3rd the fund contained $6.9 million, down from $69.3 million in mid-May and $30.6 million at the beginning of June. 1/ The rapid depletion of the fund resulted primarily from the break in funding of Trade Adjustment Assistance. Now that funding has been restored the Ford SUB plan is expected to increase again because workers usually will not draw SUB during the weeks they receive trade adjustment aid, and workers who receive retroactive trade adjustment checks are obligated to reimburse the SUB funds for overpayments.

The SUB fund at Chrysler Corporation is again functioning after going broke last fall. The Chrysler SUB currently has $11.7 million, up from $5.9 million in May. The fund was able to become solvent again when a large number of laid-off workers were certified as eligible for trade adjustment assistance. The 20 percent reduction in benefits at Chrysler was taken off at the beginning of June.

The General Motors Corporation SUB fund is still strong. At the beginning of June the fund had $237 million. Autoworkers also have two backup funds to assure benefits: (1) a Guaranteed Benefit Account funded at $200 per covered

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1/ Ford-UAW Layoff Fund to Discontinue Payments to Workers With Less Than 10 years of Service, Daily Labor Report, Bureau of National Affairs, No. 130, A-11, 7/3/80.

worker to ensure benefits for employees with at least 10 years of service; and (2) an Advance Credit Account of $100 per covered worker to shore up the regular fund.

Both the rubber industry and the steel industry have SUB plans. The rubber industry plan pays 80 percent of straight-time pay, less unemployment insurance. Employees become eligible after working one year by accruing one-half credit unit for each week worked. Employees having less than 5 years of service are allowed to build up a maximum of 52 credit units, with the maximum increasing with longer years of service (a 25 year employee may build up 208 credit units). When the fund is in good shape, one credit unit is charged for each week of benefits received. During hard times, such as the industry is currently experiencing, the number of credit units required per week ranges from 1-1/2 to 7-1/2 based on years of service.

The funds at the major tire producers, however, are in poor shape. The Uniroyal fund was depleted last year and the Firestone and Goodyear funds ran out earlier this year. All three funds have, however, temporarily resumed payments under a provision in the 1979 contract settlement requiring employers to establish in each contract year a contingency fund equal to $122 per employee when the regular fund level falls below 4 percent. Uniroyal, Firestone, and Goodrich established and exhausted their contingency funds in 1979 and re-established funds at the beginning of the second contract year in June. The new funds, however, are expected to last less than two months. B.F. Goodrich has not had to establish a contingency fund as yet, but a prolonged downturn in auto sales and in turn in the demand for tires will force them to do so.

Some relief may be in sight for the rubber SUB funds. Recently 10,000 employees at these four manufacturers were certified as eligible to apply for trade adjustment assistance according to union officials.

The steel industry similarly has a SUB plan. The plan pays 26 times an employee's average straight-time hourly earnings plus $1.50 for each of up to four dependents less unemployment compensation. Benefit levels are based on the number of dependents ranging from $125 with no dependents to $131 with 4 or more dependents for weeks for which no UI is received. (Under the new agreement those levels will rise to $166 and $206 on August 1.)

The duration of benefits is not reduced under the steel plans and employees with less than 20 years of service can receive up to 52 weeks of SUB payments. But the amount of benefits may be reduced to 60 percent of a full benefit when the trust fund is between 25 and 35 percent maximum funding, to 30 percent when the trust fund is between 15 and 25 percent, and to zero when the fund position is below 15 percent. Employees with 20 or more years of service are guaranteed two years of benefits and unreduced payments regardless of the status of the fund.

Currently the basic steel funds are paying full benefits except for the one covering former Youngstown Sheet and Tube employees at Jones and Laughlin. This plan is paying only 30 percent of full benefits according to union officials. Unique to the steel SUB plan is the provision that trade adjustment assistance benefits are not to be deducted from SUB payments during weeks employees receive State unemployment insurance benefits. During weeks that only trade adjustment benefits are received (no State UI benefits) an amount equal to the State benefit is deducted from the SUB payment.

2. Multiearner Families

In March 1979 nearly 60 percent of all husband-wife family units had two or more wage earners as compared to about 57 percent in March 1970. Both the husband and wife worked in 51 percent of these family units in March 1979 compared to 45.7 percent in March 1970. According to the Bureau of Labor Statistics the increase in multi-earner families is predominately due to increases in the number and proportion of working wives. The number of married women in the labor force has risen from 18.4 to 23.8 million between March 1970 and March 1979, a more than 29 percent increase. Nearly 50 percent of all wives were working or looking for work in March 1979.

Since a large number of households now have more than one worker, if one becomes unemployed the economic hardship is not as great as when only one family member worked. Some analysts estimate that with the one income and UI benefits the family will be able to maintain 50 to 75 percent of its preunemployment income.

II. THE POTENTIAL RESPONSE OF INCOME ASSISTANCE PROGRAMS TO THE 1980 RECESSION*

A. Introduction

Significant changes in the post-World War II labor force and the expansion of Federal income assistance programs may lessen the increased economic hardship to be suffered by some unemployed workers in the 1980 recession. Other workers, such as inexperienced youth, adult women reentering the labor force, or technologically, structurally, or import displaced workers may experience prolonged difficulty adjusting to changing economic conditions. This latter group of workers has labor market problems even in good times, but recessions tend to aggravate their difficulties.

One dramatic change in the labor force in the last 20 years may cushion the recession's impact on many of the nation's 58 million families. This change is the rise in the proportion of multiple earner, married couple families from 40 percent in 1958 to 60 percent or 28.4 million in 1978. 2/ As long as at least one family member remains employed, these families may still have roughly 50 to 75 percent of their pre-unemployment gross income for up to 26 to 39 weeks. 3/ Moreover, because UI benefits are exempt from the Federal income tax on adjusted gross incomes below $25,000 for married couples filing jointly, these families will have even higher percentages of their preunemployment net income available to them.

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* This section was prepared by Richard A. Hobbie, Analyst in Social Legislation, Education and Public Welfare Division.

2/ Beverly L. Johnson, "Marital and family characteristics of the labor force." Monthly labor review, April 1980: 48-52.

3/ For example, suppose a husband earns $16,000 and his wife earns $8,000 per year. Thus, in 26 weeks he earns $8,000 an she earns $4,000. If he becomes unemployed and receives UI at the average rate of 36 percent of gross wages, he would get $2,880 in 26 weeks of UI benefits. Added to the wife's wages in this period, the family still has $6,880 or 57 percent of the previous gross earnings. If the family unemployment situation is reversed, the family would have 79 percent of its previous gross earnings.

Recent expansions of the Unemployment Insurance (UI) and Food Stamp programs will also help to lessen economic hardship. The Unemployment Compensation Amendments of 1976 (P.L. 94-566) expanded coverage to State-local government and non-profit organization workers so that about 97 percent of all wage and salary workers are now covered by UI, an increase of about 13 percent. Moreover, there has been a dramatic increase in the rolls of the Food Stamp program for low-income persons from 4.3 million in 1970 to 16.0 million in 1978.

There are, however, continuing gaps in income assistance coverage and eligibility. Although about 97 percent of wage and salary workers are covered by UI, only about one-half of the unemployed are eligible at a given time. 4a/ Moreover, the gap between the UI-insured unemployment rate and the total unemployment rate appears to have widened between 1970 to 1978 from about 1.5 to 2.7 percentage points. This has partly resulted from the 5 percentage point increase in the proportion of youth and adult women in the labor force, because they are less likely to have the recent work experience necessary to qualify for UI when they are unemployed.

If the 1980 recession is prolonged, workers on UI will begin exhausting their benefits at a rate higher than the relatively low recent average of about 27 percent. 4b/ These workers may be forced to rely on savings or on income from other family members and other family resources. If their savings and incomes from other resources are quite low, they may qualify for Food Stamps, Aid to Families

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4a/ The proportion of the labor force eligible for UI is positively related to the unemployment rate. This relationship exists because the proportion of the unemployed who are laid off and hence, more likely to be eligible for UI, increases with the unemployment rate.

4b/ Twelve month average ending March 1980. Ratio of claimants exhausting benefits in regular program to total number of first payments.

with Dependent Children, Medicaid, or State General Assistance (GA). In 25 States, however, there is no AFDC for poor children in families with two able-bodied parents, even if one is unemployed.

B. Income Assistance Programs: Overview

The Congressional Budget Office (CBO) has recently estimated that a 1 percentage point increase in the unemployment rate leads to an automatic $5 to $7 billion increase in Federal outlays. 5/ About three-fourths of this increase results from a rise in Unemployment Insurance (UI) outlays, which is the primary program to help laid-off workers. Another one-tenth of the increase is added by Food Stamps. The other major programs such as Aid to Families with Dependent Children (AFDC), Medicaid, and Supplemental Security Income (SSI) are, at best, marginally responsive. Trade Adjustment Assistance has not been regarded as sensitive to the unemployment rate until recently, when the 1980 recession began contemporaneously with layoffs partly caused by rising automobile imports. 6/

1. Unemployment Insurance

The Unemployment Insurance (UI) system was originally authorized by the Social Security Act of 1935 to provide temporary and partial wage replacement to experienced workers in covered industries. The States administer their own programs, but the Federal government maintains the State UI payroll tax revenue accounts in the Federal UI trust fund, and it oversees administration. States set their own benefit amounts and their benefit formulas usually replace about 50 percent of a worker's

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5/ United States Congress. Congressional Budget Office. Five-Year budget projections: fiscal years 1981-1985. February 1980: p. 11. See pages 31-32 of this report for a detailed examination of the relationship between the Federal budget and the unemployment rate.

6/ Letter by Alice M. Rivlin, Director, Congressional Budget Office, to the Honorable Al Ullman, Chairman, Committee on Ways and Means, U.S. House of Representatives, June 5, 1980, p. 1.

gross average weekly wage up to some State established maximum. Also, State programs usually provide up to 26 weeks of benefits and during high unemployment periods the Federal-State Extended Benefits (EB) program adds one-half of a worker's State UI benefit entitlement up to an additional 13 weeks. In calendar year 1978 about $10 billion in UI benefits were paid to average weekly insured unemployed recipients of 2.4 million at a rate of $84 per week or about 36 percent of the average weekly covered wage. Average potential UI duration (the average number of weeks available) was 24.3 weeks and average actual duration (the average number of weeks of UI actually received) was 13.3 weeks. In June 1980, the Congressional Budget Office (CBO) projected UI outlays of about $16 billion in FY 81.

2. Trade Adjustment Assistance

Trade Adjustment Assistance (TAA) is authorized by the Trade Act of 1974 (P.L. 93-618). It provides Trade Readjustment Allowances (TRA), Training and Related Services, and Job Search and Relocation Allowances to workers unemployed as a result of import competition. 7/ TRA supplements UI benefits up to the lower of 70 percent of a workers' average weekly wage or the average weekly manufacturing wage (currently $269 or $13,988 annually). Most workers can receive benefits for up to 52 weeks. TAA outlays were $269 million in FY 79, but are expected to be $1,444 million in FY 80 as a result of recent automotive worker layoffs and TAA certifications. In FY 79 the average number of workers receiving benefits was about 73,500. The average weekly benefit was $68 and the average duration was 24.4 weeks. CBO has projected FY 81 outlays of $800 million.

7/ A group of workers must petition the Secretary of Labor for certification. Workers are certified as eligible if: (1) the workers have been separated from their jobs or are threatened with job separation; (2) sales or production of their firm has decreased absolutely; and (3) increases in imports of articles "like or directly competitive with" their firm's product contributed importantly to (1) and (2).

In May 1980 the U.S. Department of Labor (DOL) estimated that an unanticipated additional 380,000 automobile workers were certified for TAA during FY80. Added to the existing 213,000 recipients of TAA, this meant that the number of recipients had nearly tripled in FY80 to almost 600,000 workers. Most of these workers received weekly UI benefits of about $90 to $140, depending on their State UI programs and whether they receive dependents allowances. Automobile workers also are likely to receive private supplemental unemployment benefits (SUB), which usually combine with UI to an amount equal to 95 percent of the worker's previous gross wages minus $12.50 for work expenses not incurred. 8/ The TRA is often not paid, however, until after the worker is back to work in his previous job because of time delays in the application and eligibility determination process. 9/ When the payment arrives, the union usually requires the worker to repay the SUB fund with the TRA. Consequently, TRA in these cases has become a refinancing mechanism for SUB in the automobile industry.

3. Food Stamps 10/

The Food Stamp program is authorized by the Food Stamp Act of 1977 (P.L. 95-113, as amended). The program attempts to increase food purchasing power of low-income households by granting a federally funded monthly food stamp allotment. The maximum monthly allotment is adjusted for inflation each year and is now $209

8/ Daily Labor Report, Union sub funds once again tested by impact of recession on U.S. industries, May 27, 1980, no. 103: C1-C4. See pages 7-10 of this report for a discussion of SUB plans in the auto, rubber, and steel industries.

9/ United States Congress. General Accounting Office. Restricting Trade Act Benefits to Import-Affected Workers Who Cannot Find A Job Can Save Millions. January 15, 1980.

10/ See United States Congress, Congressional Research Service, Welfare Reform Background Papers: Data on Current Selected Programs, March 23, 1979 for brief descriptions of the Food Stamp, AFDC, Medicaid, SSI, and GA programs.

for a four-person household. Households must meet the following conditions: (1) net monthly income (after certain income is disregarded) below the official Federal poverty level; (2) liquid assets generally below $1,500; and (3) work registration and job search activity of certain able-bodied household members. The program paid benefits of $5.2 billion to over 16 million persons at an average monthly rate of $26 in FY 78. Continued growth and expected responsiveness to the 1980 recession has led CBO to project FY 81 outlays at $10.2 billion. [11]

4. Aid To Families With Dependent Children

The Aid to Families with Dependent Children (AFDC) program provides welfare payments for needy children (and their mothers or other caretaker relatives) who have been deprived of parental support or care because their fathers are continuously absent from home (83.3 percent of the children), are incapacitated (7.7 percent), dead (3.7 percent), unemployed (3.7 percent and only in 26 State programs), or their mothers are incapacitated, absent, dead, or unemployed (1.6 percent). States define their own income and resource limits for family eligibilty and set their own benefit levels. States either administer or supervise local administration of their programs and the Federal government pays at least 50 percent of the benefit costs with the poorer States receiving a higher percentage reimbursement up to 78 percent in FY 1978. In July 1978 State monthly benefit guarantees for a family of three varied from $88 in Mississippi to $477 in Suffolk County, New York. About 3.5 million families or 10.3 million recipients received benefit payments of almost $11 billion in FY 78 of which about $6 billion was the Federal share and the average monthly benefit was $256 per family or $86 per recipient. CBO has projected Federal AFDC outlays at $8 billion in FY 81.

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[11] The statutory ceiling, however, is currently $9.7 billion.

5. Medicaid

The Medicaid program provides medical assistance to low-income persons who are aged, blind, disabled, or members of families with dependent children. Individuals receiving AFDC or SSI are "categorically" eligible. States design and administer their own programs. The Federal government pays at least 50 percent of the program cost with poorer States receiving higher percentage reimbursements up to about 78 percent in FY 78. Over 21 million persons received benefits summing to $19.3 billion in FY 78 of which about $10 billion was the Federal share. CBO has projected Federal Medicaid outlays at about $15.8 billion in FY 81.

6. Supplemental Security Income

Supplemental Security Income (SSI) is a Federally administered program that provides income assistance to the aged, blind, and disabled. It became effective on January 1, 1974 under Title XVI of the Social Security Act. The program guaranteed monthly benefits of $189.40 for single persons and $284.10 for a married couple during July 1978 to June 1979. Payment levels are adjusted annually for the cost of living. Twenty-five States supplemented the benefit guarantees from $7 to $126 per month during this period. Eligibility is restricted to persons with assets less than $1,500 or $2,250 for married couples. The value of a person's home, household goods, and an automobile are not included in assets. Total benefits of $6.6 billion were paid to an average of 4.2 million persons in FY78. The average monthly benefit per recipient was about $131. CBO has projected SSI outlays at $7 billion in FY 81.

7. General Assistance

General Assistance (GA) programs are State and local designed, administered and funded to provide assistance to persons ineligible for Federal assistance to needy dependent children and the aged, blind, and disabled. Many States refuse aid to employable persons and some States require employable persons to work off their benefits. State-local expenditures in FY 78 for GA were $2.3 billion, including payments to medical vendors. Cash assistance went to a monthly average of 807,000 persons.

C. The Response to the 1974-1975 Recession

1. Automatic Responses

Except for UI and Food Stamps, income assistance programs were relatively unresponsive to the 1974-1975 recession. This is not surprising because the eligibility criteria for AFDC, Medicaid, and SSI exclude most recently laid-off workers. Since laid-off workers tend not to be poor, disabled, blind, aged, or single heads of families with dependent children, the only programs for which they usually qualify are UI and Food Stamps.

Figures 1 and 2 display the relationships of UI, AFDC, Food Stamps, SSI, and Medicaid benefit payments to the total unemployment rate and the UI-insured unemployment rate. In the bottom graph the insured unemployment rate is lower than the total unemployment rate because only about one-half of all unemployed persons have enough recent employment and earnings to qualify for UI benefits. In the upper graphs, it is clear that UI outlays dramatically increase with an increase in the unemployment rate and decrease with a decline in the unemployment rate. This is true even when the temporary Federal Supplemental Benefits (FSB) program is deleted, as shown by the solid line between FY 74 and FY 78. The

FIGURE 1 BENEFIT PAYMENTS IN INCOME ASSISTANCE PROGRAMS IN 1968–1978

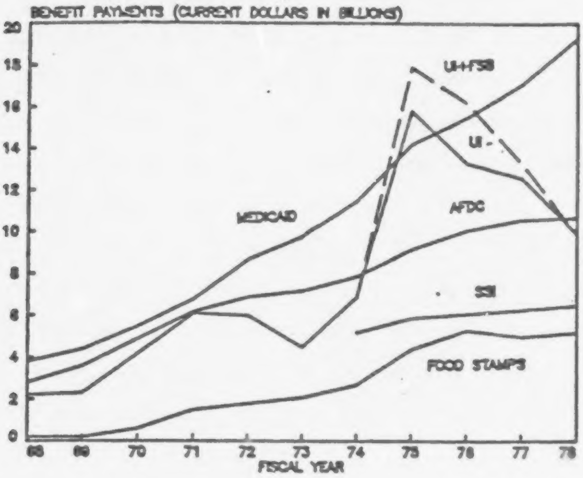
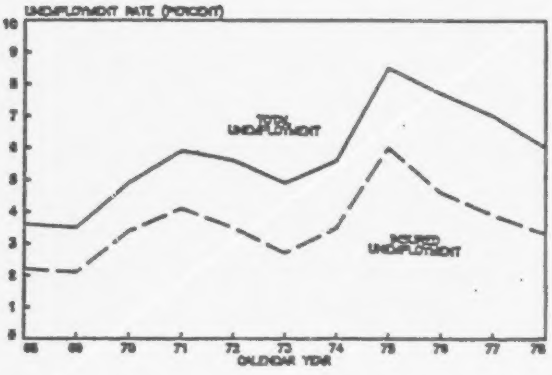


FIGURE 2. UNEMPLOYMENT RATES IN 1968–1978



Food Stamp program also has a relationship with the unemployment rate, but it is partly distorted by an increase in geographic coverage during the early 1970s, the expansion to about one million people in Puerto Rico around the time of the 1974-1975 recession, and a growing participation rate. The other programs appear to have little relationship to changes in the unemployment rate.

Since total benefit payments in these programs equal the product of the average number of recipients and the average benefit per recipient, additional insight can be gained by examining the trends in average recipients and benefits in Figures 3 and 4. Much of the growth in UI benefits is explained by the doubling of the average weekly benefit amount to $85 in 1978, but its response to the 1974-1975 recession is explained by a doubling of UI claimants from 1973 to 1975. Because the number of AFDC families and recipients has remained relatively constant since 1972, most of the growth in AFDC benefit payments seems to be explained by the growth in average benefits per family or recipient. In contrast, much of the growth in Food Stamp benefits during the 1970s seems to be accounted for by the four-fold increase in recipients from about 4.3 million in FY70 to a peak of 18.5 million in FY 76. Moreover, during the 1974-1975 recession, over 4 million additional people received Food Stamp benefits.

2. Discretionary Responses

Two important discretionary responses were enacted in the UI program on December 31, 1974 in response to the 1974-1975 recession (P.L. 93-567). First, the Special Unemployment Assistance (SUA) program was enacted to expand coverage to certain State-local government, nonprofit organization, domestic, and farm workers. Most of the workers covered under SUA were permanently covered by the Unemployment Compensation amendments of 1978 (P.L. 94-566). Second, the Federal

FIGURE 3. AVERAGE NUMBER OF RECIPIENTS IN 1968–1978

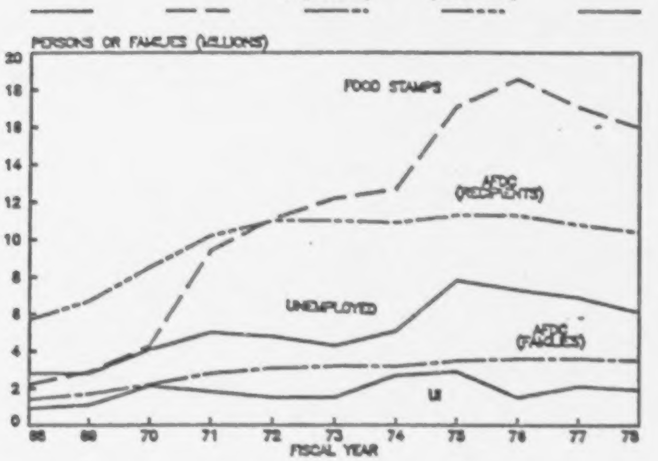
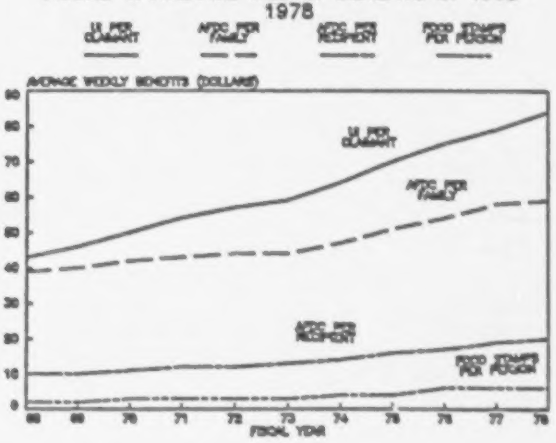


FIGURE 4. AVERAGE WEEKLY BENEFITS IN 1968–1978



Supplemental Benefits (FSB) program ultimately provided two-tiers of up to 13 additional weeks of UI benefits each for a possible maximum duration of one year and 13 weeks. Thus, for a short period after the beginning of the 1974-1975 recession some workers could receive up to 26 weeks of regular State UI, 13 weeks of Federal-State Extended Benefits (EB), and 26 weeks of Federal Supplemental Benefits. FSB expired, however, in FY 77. Since it was a temporary program, its outlays should be subtracted from total UI outlays in Figure 1 to obtain a more accurate picture of the automatic response of UI to the 1974-1975 recession.

3. The Receipt Of Income Assistance By Jobless Persons In 1975

Table 1 depicts the distribution of persons who reported in March 1976 that they had been unemployed sometime during 1975 by receipt of income assistance and poverty ratio. The receipt of income assistance is defined to include UI, Food Stamps, AFDC, SSI, and possible combinations of these programs. The poverty ratio is the person's family income divided by the official poverty level for his family size, which was $5,500 for an urban family of four in 1975. For example, four-person urban families with incomes of $4,000, $5,500, and $11,000 would have poverty ratios of 0.73, 1.00, and 2.00, respectively.

An estimated 21 million persons were unemployed sometime during 1975. About half were reported to have received some kind of income assistance. 12/ Ninety percent of these 10.1 million persons received either UI, Food Stamps, or both. About 64 percent received UI only, 15 percent received Food Stamps only, and 10 percent received both. The remaining 11 percent mainly received AFDC, AFDC and Food Stamps, or AFDC, Food Stamps, and UI.

12/ The Survey of Income and Education (SIE) is the data source. Like all surveys of this kind, the receipt of income assistance is underreported.

Table 1. Receipt of Income Assistance by Family Poverty Ratio of Persons Who Reported in March 1976 That They Had Been Unemployed in 1975 (Persons in Thousands)

Programs	Poverty Ratio (c) Less than 0.50	0.50 to 0.75	0.75 to 1.00	1.00 to 1.50	1.50 to 2.00	2.00 to 3.00	3.00 to 4.00	4.00 to 5.00	At least 5.00	TOTALS (b)
AFDC only	35	27	27	34	11	15	1	2	1	152
Food Stamps only ..	248	255	239	374	205	168	48	15	11	1,561
Federal SSI only	2	3	9	15	10	5	6	4	3	58
State SSI only ...	0	(a)	(a)	2	2	6	1	(a)	(a)	12
UI only	63	90	176	544	819	1,823	1,360	831	804	6,511
AFDC & Food Stamps	130	139	146	102	38	28	8	2	3	594
Federal SSI and Food Stamps ..	5	8	6	10	3	3	1	0	0	36
State SSI & Food Stamps	1	0	2	1	0	1	0	(a)	0	5
UI & Food Stamps	36	78	117	293	226	198	62	14	12	1,037
UI & AFDC	4	3	1	6	5	7	1	1	1	29
UI, AFDC, & Food Stamps	5	12	19	43	14	10	2	2	0	107
Other Combinations	0	1	8	8	8	8	5	2	1	41
None of the above	523	356	410	1,195	1,319	2,579	1,877	1,135	1,259	10,653
TOTAL (b)	1,051	971	1,159	2,627	2,661	4,851	3,372	2,008	2,096	20,795

(a) Less than 500.
(b) Figures may not add exactly to totals because of rounding.
(c) The poverty ratio is the ratio of family income to the official poverty figure for the appropriate family size. For example, the poverty level for an urban family of four in 1975 was $5,500. If three urban families of four had family incomes of $4,000, $5,500, and 11,000, their poverty ratios would be 0.73, 1.00, and 2.00, respectively.

Source: Survey of Income and Education (SIE).

Eighty-five percent of the 21 million people were not classified as poor in 1975, despite experiencing difficulty finding a job or being laid off. In other words, only 15 percent of the 21 million persons were in families classified as poor or had poverty ratios equal to less than 1.0. Moreover, only 28 percent had poverty ratios equal to less than 1.5.

Different pictures emerge when income assistance recipients are compared to nonrecipients. Nineteen percent of the income assistance recipients were classified as poor compared to 12 percent for nonrecipients. Moreover, 33 percent of the income recipients had poverty ratios equal to less than 1.5 compared to 23 percent for the nonrecipients. Sixty-eight percent of the poor income assistance recipients were not receiving UI, however. About 7 percent of those who received UI were classified as poor, while 64 percent of those who received AFDC and Food Stamps were classified as poor.

D. Potential Responses To The 1980 Recession

Potential income assistance program responses include strategies that could begin working before the end of 1980 and those that probably could not be enacted and implemented until late 1981, when most economists expect the economic recovery to be well underway. These latter strategies, such as short-time Unemployment Compensation under the Schroeder Bill (H.R. 7529) or Unemployment Cost Equalization under the Javits Bill (S.825/H.R. 1572) most likely cannot be enacted and implemented fast enough to have a substantial effect on the 1980 recession, but may be viable options to consider in planning for the next recession. This section, however, discusses only those options that can have an immediate effect on the 1980 recession. They include: (1) relying only on automatic responses; (2) extending the maximum potential duration of UI benefits from 39 to 52 weeks under the Brodhead Bill (H.R. 6540); (3) expanding the AFDC-UP program under the House-passed Social Welfare Reform Amendments of 1979 (H.R. 4904); and (4) providing public service employment and/or training to long-term UI recipients or "exhaustees."

Most workers go back to work before they exhaust their regular UI benefits, but the proportion that exhausts regular UI benefits increases during recessions from about one-fourth to two-fifths. For example, during the brunt of the recession in 1975 the average actual duration on regular State UI benefits (usually provided up to the first 26 weeks) was still only two-thirds of the average potential duration of 24.3 weeks, yet 4.2 million workers or 37.8 percent of UI recipients exhausted their regular State benefits. This latter group of UI exhaustees has continuing reemployment problems, but generally is not poor.

The general evidence on long-term UI recipients and exhaustees in 1975 suggests that they tended to have serious difficulties finding reemployment, but were not from poor families and hence, did not receive AFDC or Food Stamps at very high rates. A study funded by the U.S. Department of Labor (DOL) of 2,000 UI "exhaustees" in four major urban areas at the beginning of the 1974-1975 recession found: (1) of those who had employment related health insurance over half had no health insurance sometime after they lost their job; (2) only 7 percent eventually received AFDC and 25 percent received Food Stamps; (3) unemployment reduced their average weekly family income from $271 or $14,092 annually to $178 or $9,256 annually; (4) twenty-four percent were reemployed four months after UI benefit exhaustion, 14 percent dropped out of the labor force, and 61 percent were still unemployed; and (5) the average annual normal income of the families was $10,000 or 77 percent of the national median and nearly twice the 1974 official poverty level. 13/

1. Relying on Automatic Responses

Relying on automatic responses means that help would be available to most laid-off workers under the existing UI program for up to 39 weeks in most States. Low-income persons with low assets could get Food Stamps and perhaps other benefits, but the main response would be a $4 to $5 billion increase in UI for each 1 percentage point increase in the average annual unemployment rate. During the last recession, an average of about 1.7 million additional unemployed workers were aided by UI in 1975, when the unemployment rate jumped 2.9 percentage points from 5.6 percent in FY74 to 8.5 percent in FY75.

2. Extending UI Duration

If the 1980 recession is prolonged, UI exhaustees could be helped by extending potential duration. During the last recession this was done under the Federal Supplemental Benefits (FSB) program. In 1975 a cumulative total of 2.8 million persons received FSB totaling $2.2 billion. A study funded by DOL of 12,000 FSB recipients in 15 States during 1975 found in March 1976 that: (1) a typical FSB recipient was out of work for 63 weeks; (2) of the 31 percent who were reemployed most had lower earnings as a result of working fewer hours than on their pre-unemployment job; (3) seventy-seven percent of the worker's families were not poor;

13/ Walter Corsen, et.al. Experiences of Unemployment Insurance Recipients During the First Year After Exhausting Benefits, Mathematica Policy Research, Inc., August 1978, p. 35-37. The official poverty level of an urban Family of Four in 1974 was $5,038.

but (4) an additional 10 percent would have been poor without FSB and no substitute income. 14/

The Brodhead Bill, H.R. 6540, would trigger on up to an additional 13 weeks of UI benefits in States with insured unemployment rates for the most recent 13-week period of at least 5 percent. Thus, 52 weeks of UI benefits would be available in high unemployment States. It would provide the same weekly benefit amount as the States' programs and would be funded from Federal general revenues. Eligibility and qualification conditions of State laws would apply. The Department of Labor has provided an unofficial cost estimate in FY81 of $1.5 billion, assuming an average unemployment rate of 8.5 percent in FY81. 15/

3. Expanding the AFDC-UP Program

The House-passed Social Welfare Reform Amendments of 1979 (H.R. 4904) would expand the AFDC-UP program to the 25 States that do not currently have this program. This would provide assistance to two-person families with unemployed parents ineligible for UI or with UI benefits lower than the amount they would receive on AFDC-UP. In the latter case, AFDC-UP would supplement the UI benefits up to the family's AFDC-UP guarantee level.

4. Public Service Employment and/or Training

A final option available would be employment and training services under Titles II and VI of the Comprehensive Employment and Training Act (CETA). Since these services are available only to low-income, unemployed workers, not all UI

14/ Walter Corson, et.al. A study of recipients of Federal supplemental benefits and special unemployment assistants, Mathematica Policy Research, Inc., January 1, 1977.

15/ The estimate was based on economic assumptions developed by Data Resources, Inc., not the Carter Administration.

recipients or exhaustees would be eligible because their family incomes exceed CETA limits. The most needy of the unemployed, however, would be helped, particularly if the number of positions in these programs were expanded in reponse to the recession. Another strategy would be to directly appropriate funds for training, job search, and relocation allowances under TAA. Recently, a limited amount of funds for these activities has been available through CETA Title III, but only about 8,500 persons enrolled in training in FY 78. 16/ Increasing funds for these activities might help some nonpoor workers adjust to changed economic conditions in their localities.

16/ U.S. Congress. Senate. Committee on Finance. Subcommittee on International Trade. Trade Adjustment Assistance Program. Staff Data and Materials, Committee Print No. 96-21, 96th Congress, 1st Session, July 1979. Washington, U.S. Govt. Print. Off., 1979. p. 12.

III. THE FEDERAL BUDGET AND CHANGES IN THE UNEMPLOYMENT RATE*

In times of recession, the interrelationship between the Federal budget and the unemployment rate becomes a topic of considerable interest. Policymakers want to be able to anticipate the rise in budget outlays and fall in receipts caused by a 1 percentage point change in the unemployment rate. As will be shown, analysts have found that the budget is highly sensitive to changes in the Nation's economic performance.

When the unemployment rate increases, budget receipts fall. Fewer taxes are paid by unemployed individuals who experience a decline in income and by corporations that experience a decline in profits. (Profits may fall as unemployed consumers reduce their purchasing.) In addition, the decline in budget receipts may be more severe if employed individuals receive smaller wage increases because of the Nation's poor economic performance.

An increase in the unemployment rate also alters Federal spending. Outlays for unemployment compensation rise. In addition, expenditures for food stamps, welfare, medicaid, and other programs increase.

A drop in revenues and a rise in outlays caused by a higher unemployment rate results in an increased budget deficit. Most economists would view this rise in the deficit during a recession as desirable. Increased spending and lower receipts can act as "automatic stabilizers" that cushion the impact of a recession.

A recent estimate of the effect of the unemployment rate on the Federal budget was prepared by the Congressional Budget Office (CBO) in February 1980. 17/

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* This section was prepared by John D. Fisk, Analyst in Labor Economics.

17/ U.S. Congressional Budget Office. Five-Year Budget Projections: Fiscal Years 1981-1985. February 1980.

Their estimates assume a 1 percentage point rise in the unemployment rate for calendar years 1980 and 1981 caused by lower economic growth. 18/ Given this increase in the unemployment rate, the Congressional Budget Office estimated that outlays in fiscal 1981 would rise by $5 billion to $7 billion and receipts in fiscal 1981 would fall by $20 billion to $22 billion. 19/ The overall result would be a $25 billion to $29 billion increase in the budget deficit. For fiscal 1980, the Congressional Budget Office estimated that the higher unemployment rate would increase outlays by about $4 billion and would reduce receipts by approximately $10 billion. 20/ Consequently, the fiscal 1980 budget deficit would rise by roughly $14 billion.

One important point about the Congressional Budget Office estimate is worthy of note. The Congressional Budget Office assumed that the unemployment rate in calendar year 1980 would be 7.0 percent. 21/ In the past, it has been found that the effect on the deficit of a 1 percentage point change in the unemployment rate depends upon the initial level of unemployment. 22/ For higher initial unemployment rates, a 1 percentage point rise in the unemployment rate tends to result in a larger increase in the budget deficit. 23/ Consequently, if CBO's unemployment rate estimate is low, their budget deficit estimate for 1980 will also be low.

18/ Ibid., p. 10-11.

19/ Ibid.

20/ Ibid., p. 21, 37.

21/ Ibid., p. 3.

22/ U.S. Library of Congress. Congressional Research Service. Impact of Unemployment on the Federal Deficit by Warren E. Farb and Douglas Bendt. Washington 1976. p. 6-8.

23/ Ibid., p. 6.

IV. COUNTERCYCLICAL RESPONSES TO RECESSION

As the recession finally took hold of the American economy in early 1980 and as the rate of unemployment jumped from 6.2 percent in January to 7.8 percent in May, policies to aid unemployed workers have received increasing attention. Earlier in this paper (pp. 13-30) existing income maintenace programs were discussed that would lessen the financial burden of workers who have lost their jobs as a result of the economic downturn. In this section proposals which might be undertaken by the Federal Government to increase employment will be discussed.

Any job creation proposal must be evaluated on both long and short-run criteria. In the short-run policymakers need to know: (1) the net number of jobs created per dollar of expenditure (net jobs refers only to those jobs which were created over and above those that would have existed without the program); (2) the time needed for actual job creation; (3) the groups that will benefit from the program; (4) the ability to terminate the program when the economy turns around; and (5) the program's short-run inflationary impact. In the long run policymakers should be aware of a program's effect on inflation, effect on participants' wages and employment stability, and effect on productivity.

A. Income Tax Cuts*

Reductions in Federal income taxes have been used to stimulate economic activity several times during the past two decades. The first large stimulative tax cut was the $12 billion reduction in individual and corporate income tax rates in 1964. This fiscal action, which is known as the "Kennedy tax cut," was designed to stimulate the economy out of a sluggish growth pattern and thereby reduce unemployment. Additional stimulative tax cuts were implemented in 1970, 1971, 1975, and 1978 (small tax reductions were also enacted in 1976 and 1977).

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* This section was prepared by Donald W. Kiefer, Specialist in Taxation and Fiscal Policy.

These fiscal policy actions have provided the opportunity for applied research into the economic effects of tax changes. This research combined with the experience gained during the last two decades, has led to substantial revisions in the thinking among economists regarding the efficacy of countercyclical tax policy. Economists have discovered that the difficulties involved in forecasting the course of the economy, and even in definitively assessing its current status, are greater than previously realized. Furthermore, the magnitude and timing of the economic effects of tax policy have been found to be different than thought earlier. Specifically, countercyclical tax cuts have smaller stimulative effects than were anticipated in the 1960's, and the effects are protracted, reaching their peak during the second or third year after implementation. In addition, the costs of creating jobs via across-the-board tax cuts have been found to be relatively high, in the range of $20,000 to $30,000 per job. 24/ Furthermore, a significant portion of the increase in GNP caused by a tax cut, especially in the later years of its effectiveness, is the result of higher inflation, and not increased real economic activity.

24/ Isabel V. Sawhill, Employment Subsidies and Tax Credits as a Response to Unemployment, in Fourth Annual Report to the President and the Congress of the National Commission for Manpower Policy, 1979, p. 37.

These results have important policy implications. First, it is probably already too late for a tax cut to be effective in moderating the 1980 recession. The recession is widely forecast to end in the fourth quarter of 1980 or the first quarter of 1981. If these anticipations are accurate, by the time a tax cut can be enacted and implemented and begin to have any significant effect, the recession will be over and recovery will have begun. Second, a tax cut put into effect in 1981 will have its maximum stimulative effect in 1982 or 1983. Third, a tax cut, depending on its nature and the economic circumstances, may have a significant inflationary impact, particularly in the longer run, as its real stimulative effects dissipate. This fact, combined with the the second point mentioned above and the very high recent inflation, may counsel caution regarding the magnitude of any countercyclical tax reduction.

A recent simulation exercise by Data Resources, Inc. (DRI) examined the likely economic effects of a $30 billion tax cut ($18 billion personal, $12 billion business) implemented in January 1981. 25/ The DRI model currently forecasts an end to the recession in the fourth quarter of 1980; hence the tax cut in the simulation does not moderate the recession; it stimulates a more rapid recovery. GNP grows somewhat more rapidly in 1981 and 1982 under the influence of the tax cut; the unemployment rate shows no significant effect until late 1982 when it is 0.3 percentage points lower than without the tax cut, and no significant effect is observed on inflation through the end of 1982. 26/

25/ Rice, Douglas, Income Effects of a 1981 Tax Package, Data Resource. U.S. Review, June, 1980, pp. 1.31-1.36.

26/ The inflation effect is generally found to build more slowly and to grow in later years as the real effects diminish.

B. A Social Security Tax Cut*

Recently interest has developed in cutting social security taxes, or offering an income tax credit equal to a percentage of social security tax payments, as a means of stimulating the economy. The income tax credit approach would avoid reducing the revenue flowing to the social security trust funds. One reason for interest in this approach is that social security taxes have been the fastest growing element of the Federal tax structure, and are scheduled to increase again in 1981. A second reason is that cutting the social security tax may be less inflationary than an income tax cut and may even, under certain circumstances, reduce the inflation rate. A social security tax cut would be expected to have effects similar to an income tax cut in stimulating aggregate demand and economic activity and thereby reducing unemployment. However, since the employer portion of social security taxes is a cost of doing business, and appears (in the long run) to be substantially passed on through higher prices, it is likely that a reduction in this tax would be less inflationary than an income tax cut (in the long run). While the evidence on this point is uncertain, it is also possible that under some economic circumstances a reduction in the social security tax may reduce the inflation rate (in the long run) because of the reduced employment costs.

C. Tax Incentives for Investment**

Tax incentives for investment are often proposed as ways of stimulating the economy, increasing productivity and reducing unemployment. This effect occurs through an increase in the demand for capital goods, induced by the tax reduction, which, like any other increased demand in the economy, expands income and reduces unemployment through multiplier effects. Economists have generally been critical, in recent years, of the use of an investment incentives as a short-term stabilizer. One of the principal reasons for these criticisms is the relatively long lag between the granting of the incentive and the actual increase in demand for capital goods. Because of this substantial lag, an investment incentive may perform poorly as a stabilization device, having little or no effect on aggregate demand during the time a stimulus is desired, and perhaps causing a stimulus in demand during the recovery period when it is not needed.

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* This section was also prepared by Donald W. Kiefer.

** This section was prepared by Jane G. Gravelle, Specialist in Taxation and Fiscal Policy.

Many economists have argued that investment incentives can have a substantial impact on the long run growth prospects of the economy and that growth, rather than stabilization, should be the goal of such incentives. An investment incentive has a "supply side" effect in that it may act to expand the size of the capital stock and thus improve productivity in the economy. Some economists have argued, however, that the increase in business capital stock may come at the expense of other uses of funds such as consumer durables (owner-occupied housing, automobiles, and other durable goods). Thus the relative benefits to society (or "trickle-down" effects) of increased productivity (higher wages and lower prices) might be offset by higher interest costs which raise the price of housing and other consumer durables.

If an investment incentive is elected, then the particular type (10-5-3, 27/ increased investment credits, shortening of asset depreciation range (ADR) lives, and indexing) would have differential effects and can be evaluated according to several criteria.

(1) These options may vary in magnitude of effect and in the ease with which the relative size of the package can be altered. 10-5-3 and indexation, for example, are very expensive proposals which have effects of very large magnitude and whose magnitude cannot be easily varied. The investment credit and expansion of ADR can be set to produce the desired magnitude of effects.

(2) The options vary as to the kind of assets they favor, with the investment credit most generous to short lived assets, probably followed by indexation, then shortening of ADR lives and then by 10-5-3. Since the present tax law tends to distort investment in favor of short lived assets, a proposal which would involve accelerated depreciation or a proposal like 10-5-3 would probably be superior on grounds of neutrality (or economic efficiency). However, proposals which are even more consistent with a neutral tax system could be devised as well.

(3) The options have a different revenue loss pattern. The investment credit results in a relatively smooth pattern of revenue loss over time while accelerated depreciation is characterized by a very uneven revenue loss pattern.

(4) The options vary in their complexity and administrative costs. Accelerated depreciation and 10-5-3 (especially the latter) would tend to

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27/ Under this proposal non-residential buildings would be depreciated in ten years (against an average of more than thirty years now) and equipment and machinery would be depreciated in five years (against an average of around twelve years now). An optional three year life is allowed for the first $100,000 of investment in cars and light trucks.

simplify the tax law, the investment credit would not have much effect, and indexation would introduce additional complications.

D. Tax Incentives for Urban Job Creation

Recent legislation has been introduced to stimulate job opportunities in poverty stricken urban areas by providing tax incentives (H.R. 7563 and S. 2823). While devised as a structural program, the employment problems of inner city residents are clearly exacerbated by economic downswings. Depressed localities meeting certain qualifying criteria and agreeing to reduce property taxes would be certified by the Federal government as "Jobs and Enterprise Zones." Social security and capital gains taxes would all be reduced in these zones. Business taxes would be reduced also; however, only for those firms which have 50 percent of their employees residing within the zone.

Sponsors of the legislation estimate that the measure would cost the Federal Government approximately $1 or $2 billion in lost revenues and would encompass about 5 to 10 percent of inner city areas. They expect revenues to be generated, however, from the personal and business taxes that would not otherwise exist if the jobs had not been created. If the final cost is $1 billion, the sponsors note, this would be one-sixth the cost of CETA. No job creation estimates were given by the sponsors.

E. Direct Job Creation Policies

Direct job creation policies may be defined as policies undertaken to increase the demand for labor of specific groups experiencing high unemployment or nonemployment. Such policies may be directed toward the cyclically unemployed as well as the structurally unemployed. This paper limits itself to countercyclical job creation although the structurally unemployed, who are often made worse off during a recession, may participate in countercyclical job creation programs. 28/

Direct job creation programs may be implemented either in the public sector (public service employment), the private sector (employment subsidies) or both. Current countercyclical public service employment (PSE) programs are essentially full (100 percent) wage subsidies for the public sector (CETA, Title VI PSE) and the New Jobs Tax Credit was this Nation's first attempt at a countercyclical wage subsidy for the private sector. Both public and private sector programs, however, suffer from what has come to be called "displacement." This problem results when employers use the subsidies to hire people that they would have hired even if the subsidy would not have been given. In the public sector this occurence is often referred to as "fiscal substitution." In the private sector it is commonly referred to as a "windfall gain."

Public sector payroll savings, resulting when subsidized workers are hired in slots which would have been filled anyway, are generally used to improve the condition of local government budgets in the short run and often allow the local government to hold down sales or property taxes in the longer run. In the private sector the payroll savings in the short run may result in an expansion of output and in the longer run in lower prices. In either case, there could be some reduction in inflationary pressures as a result of lower taxes or prices.

Generally speaking, the bulk of the funds initially "gained" as a result of displacement are eventually channeled back into the economy. If this does

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28/ In a recent report to the Senate Budget Committee, the Congressional Budget Office noted that more than 95 percent of the people who are eligible for CETA Title II D public service employment (structural unemployment PSE) are also eligible for Title VI PSE (countercyclical unemployment PSE), and that more than 90 percent of those eligible for Title VI PSE are eligible for Title II D PSE. Employment and Training Reporter, Vol. II, No. 40, June 18, 1980, p. 1154.

not happen as described above, then it should occur through reduced borrowing or increased capital spending in the public sector or higher dividend payments or investment in the private sector.

The issue of displacement is clearly important in calculating the budget costs per job created. The number of jobs which would have been created even in the absence of the program needs to be subtracted from the total number of PSE or wage subsidy jobs to arrive at the net number of direct jobs created. As noted above, however, monies "saved" from displacement usually find their way back into the economy and eventually create jobs.

1. Public Service Employment

The first post-war countercyclical public service employment (PSE) program was not instituted until 1970 (Public Employment Program). Currently Title VI of the Comprehensive Employment and Training Act of 1973 (CETA), as amended, provides for countercyclical public service employment: This title calls for PSE positions to be created when the national rate of unemployment exceeds 4 percent. Funding is to be sufficient enough to provide jobs for 20 percent of the number of unemployed workers in excess of 4 percent, or 25 percent of the unemployed workers when the national rate exceeds 7 percent. In fiscal year 1979 outlays for Title VI totaled $3,285 million.

As discussed earlier, countercyclical PSE programs have traditionally been directed towards those workers who are unemployed as a result of a slowdown in the national economy. In order to help these workers it is necessary to know what region(s) of the country they're located in, their industries, their occupations, and their socioeconomic group among other factors. The first part of this paper addressed these issues. The recession to date has had the most severe impact on white prime-aged males in the North Central and Great Lakes regions. Those unemployed are blue collar workers predominately in the motor vehicle, metal fabrication, steel, rubber, and construction industries. A decision must be made before PSE is used as a countercyclical program, if this group needs and will be effectively aided by PSE.

The cost per job created under PSE remains somewhat controversial. The point of debate is the displacement effect discussed earlier. Estimates for the CETA program before it was substantially revised for 1978 to reduce displacement levels, run from 20 to 60 percent in the short run (first year) and 80 to 100 percent in the long run (after one year). No displacement estimates are available for the revised program which addressed the displacement issue by restricting enrollment to low-income applicants and the long term unemployed, and by limiting wages. Assuming that the displacement ranges from 30 to 70 percent, unpublished CBO estimates show that it costs between $10,000 and $20,000 (1978 dollars) to create a person-year of public service employment. If the revised program is successful in reducing displacement these costs will fall.

Countercyclical PSE jobs have been found to have been created fairly rapidly. To the extent that the PSE program is already on the books (e.g. Title VI of CETA), programs can be started quickly since they only require expansion of current authorizations and appropriations and State and local governments can use the funds directly for job creation. For example, the number of PSE jobs was increased from approximately 290,000 in early 1977 to 730,000 in early 1978, a 440,000 gain in one year. PSE is limited primarily only by the speed with which State and localities can absorb additional job slots. Too rapid an expansion could, however, increase the displacement rate if the pressure to spend the funds causes a larger proportion of the new jobs created to be jobs which would have existed in any case.

Two types of lags exist after the funds have been appropriated — administrative and implemental. The first lag refers to the time required to draw up regulations, to prepare project applications, to process and review project applications, and to allocate funds to successful sponsoring agencies. The implemental lag reflects the time it takes for the allocated funds to be actually spent, i.e., for jobs to be created and filled. It should be fairly clear that the more targeted the program becomes (e.g., for workers unemployed 15 weeks or more and who have incomes below the poverty level) and the more comprehensive the rules, the longer these two lags become.

PSE programs are fairly easy to phase down as a recession ends as long as the lags discussed above are short. If the lags should be long, however, it is quite possible that the PSE jobs would continue into the upswing and may prove to be somewhat inflationary. In the short run, however, vacancies will be filled from the locally unemployed and would not be inflationary. Job creation programs must also be evaluated as to their longer run effects on participants. While in the short run PSE jobs create employment and generate income, they do not necessarily improve longer run employability, productivity, or post-program wages. Although evaluations have suggested that these gains do occur, methodological problems make these findings suspect. 28a/

2. Wage Subsidies and Employment Tax Credits*

a. Introduction

As part of an effort to combat the lingering effects of the 1973-1975 recession, Congress enacted the New Jobs Tax Credit (P.L. 95-30, Title II) in May 1977. The New Jobs Tax Credit is an example of an employment tax credit or wage subsidy designed to reduce cyclical unemployment. A wage subsidy can

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28a/ See, for example, Charles R. Perry et al, The Impact of Government Manpower Programs, Industrial Research Unit, The Wharton School, University of Pennsylvania, 1975.

* This section was prepared by John D. Fisk, Analyst in Labor Economics.

be defined as a payment by the Federal Government to a firm or a credit against the firm's tax liability conditional upon some feature of the firm's employment.

b. The economic effects of a wage subsidy

A wage subsidy or employment tax credit reduces a firm's employment costs in the short run without reducing the income of the workers. In theory, lower labor costs would induce firms to expand their production by hiring additional employees. Ideally, lower labor costs would also encourage price restraint by lowering the costs of production. A wage subsidy, therefore, is sometimes viewed as a tool to fight cyclical unemployment in a manner that is less inflationary than other job creation tools.

The ability of a wage subsidy to increase employment while restraining inflation may be less certain than the simple theory indicates. During a business downturn, employers may be reluctant to expand employment if the sales outlook is bleak. This may be a particularly important consideration if the wage subsidy is paid only for increases in employment above some base. (This form of subsidy is known as a marginal wage subsidy.) During a recovery from recession, the reluctance to expand employment may not exist; however, a subsidy available during the recovery period may create some inflationary pressure by increasing the demand for particular groups of workers who are in short supply.

If a wage subsidy fails to induce a firm to expand its employment above the level that would have existed in the absence of the program, then a payment to the employer would be a total windfall. (Normally, only part of the subsidy would be a windfall.) In the case of a total windfall, a wage subsidy might have effects similar to a corporate income tax cut. Consequently, indirect increases in employment and output might still occur.

c. The design of a wage subsidy

In addition to basic economic forces, design characteristics partially determine the economic effects and side effects of a wage subsidy. Design options are numerous. Only a few important design characteristics are discussed below.

A wage subsidy can either be targeted on specific demographic groups of workers or industries, or can be a general subsidy aimed at a broad spectrum of employees. In the past, a general subsidy has been enacted to deal with cyclical unemployment (the type of unemployment problem which is being discussed in this paper). Targeted subsidies have been used to deal with the problem of structural unemployment. (The Targeted Jobs Tax Credit currently in effect is an example.)

Marginal wage subsidies that pay benefits only to firms that expand their employment can be contrasted with wage subsidies that pay benefits for a firm's total employment. A marginal wage subsidy reduces, but does not eliminate, windfall payments received by firms for workers that would have been hired even in the absence of the program. Under a marginal subsidy, the budgetary cost of the employment stimulus is reduced; however, the administrative cost for employers and the Federal Government is increased.

The New Jobs Tax Credit (NJTC) illustrates how past wage subsidies focusing on cyclical unemployment have been designed. The NJTC was both a general subsidy aimed at a broad spectrum of workers, and a marginal subsidy paying benefits only for increases in employment above a base. In addition, the NJTC was a capped subsidy that limited the benefits that any one firm could receive.

d. Description of the new jobs tax credit

The NJTC allowed employers to claim a credit in 1977 and 1978 equal to 50 percent of the amount by which unemployment insurance wages exceeded 102 percent of unemployment insurance wages in the previous year. 29/ Unemployment insurance wages were the first $4,200 paid to each employee. 30/ (For example, a firm employing 10 workers and paying each worker $12,000 would have had unemployment insurance wages of $42,000, or 10 workers times $4,200 per worker.) A number of additional restrictions limited an employer's ability to claim the credit. First, the NJTC was not refundable, so firms with no tax liability received no benefits. Second, the NJTC was a capped subsidy. No employer could claim a credit that exceeded $100,000 per year, 25 percent of the firm's unemployment insurance wages, or 50 percent of the difference between the firm's total wages and 105 percent of the previous year's total wages. Third, the amount of wages normally deducted as a business expense when computing taxable income had to be reduced by the amount of the credit. Finally, firms were able to claim an additional credit subject to a number of limitations if certain handicapped workers were hired. 31/

e. An evaluation of the new jobs tax credit

As the above description of the NJTC demonstrates, the NJTC was a highly complex subsidy with restrictive eligibility. A number of experts have faulted

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29/ In 1979, the Targeted Jobs Tax Credit replaced the NJTC.

30/ In 1978, unemployment insurance wages were the first $6,000 paid to each employee, instead of $4,200. The NJTC, however, retained the old $4,200 figure for purposes of computing the credit.

31/ Hjorth, Roland L. New Jobs Tax Credit. Taxes — The Tax Magazine, v. 55, no. 11, November 1977: 707-714; U.S. Congress. Senate. Committee on the Budget. Tax Expenditures. Washington, U.S. Govt. Print. Off., 1978. p. 127-130. At head of title: 95th Congress, 2d Session, Committee Print.

the NJTC for this reason. 32/ A U.S. Census Bureau survey found that only 20 percent of all firms that knew of the NJTC's existence believed that they were eligible to claim the credit. 33/

The Census Bureau survey also suggests that roughly three fourths of all employers were unaware of the NJTC's existence. 34/ Lack of knowledge about employment tax credits has been a constant problem in other U.S. wage subsidy programs. To be effective, wage subsidies must be better publicized than they have been in the past.

Even though many firms were unaware of the credit's existence, empirical studies have found that the NJTC increased employment. 35/ John Bishop and Robert Haveman of the Institute for Research on Poverty at the University of Wisconsin tentatively estimated that the NJTC caused a net increase in employment between mid-1977 and mid-1978 of 150,000 to 670,000 jobs in the construction, wholesale, and retail trade industries. 36/ Bishop and Haveman also found

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32/ Testimony of Robert Eisner in U.S. Congress. Senate. Committee on Finance. Subcommittee on Administration of the Internal Revenue Code. Jobs Tax Credit. Joint hearings, before the Subcommittee on Administration of the Internal Revenue Code of the Committee on Finance and the Select Committee on Small Business, 95th COngress, 2d session. Washington, U.S. Govt. Print. Off., 1978. Hearings held July 18 and 26, 1978; Hjorth, Roland L. New Jobs Tax Credit, p. 707-714.

33/ U.S. Bureau of the Census. New Jobs tax Credit Survey Covering 1977 Tax Year. April 1978. Table 3.

34/ Ibid., Table 1.

35/ Perloff, Jeffrey M. and Michael L. Wachter. The New Jobs Tax Credit: An Evaluation of the 1977-1978 Wage Subsidy Program. American Economic Review, v. 69, no. 2, May 1979: 173-179; Bishop, John and Robert Haveman. Selective Employment Subsidies: Can Okun's Law Be Repealed? American Economic Review, v. 69, no. 2, May 1979: 124-130.

36/ Bishop, John and Robert Haveman. Selective Employment Subsidies: Can Okun's Law Be Repealed?, p. 127.

that the NJTC caused prices in these industries to rise more slowly than they would have otherwise. 37/

It is important to note that estimated increases in employment caused by the NJTC occurred in the private sector, and occurred within a fairly short period of time after the credit's enactment. Some policy makers view private sector job creation as particularly desirable because skills obtained in a subsidized private sector job may be easily transferable to an unsubsidized job in the private sector. In the long run, the development of such skills would tend to lead to higher productivity growth rates. The speed with which employment increased is another feature of the NJTC which may be viewed as desirable. Irwin Garfinkel of the Institute for Research on Poverty and John L. Palmer of the Brookings Institution have suggested that "the timing of the effects of a wage subsidy can be expected to be on a par with that of other forms of general business tax cuts, perhaps somewhat quicker if a large portion of the total subsidy induces additional employment." 38/

The NJTC subsidized some employment which would have occurred even in the absence of the program. Employers, therefore, received windfall payments. (Fiscal substitution in public service employment is a similar phenomenon.) The extent of these windfalls is measured by the displacement rate, or the portion of the gross increase in employment which would have occurred even if

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37/ Ibid., p. 128-129.

38/ Garfinkel, Irwin and John L. Palmer. Issues, Evidence, and Implications. In John L. Palmer, ed., Creating Jobs. Washington, The Brookings Institution, 1978. p. 9.

the NJTC did not exist. (Windfall payments may still indirectly increase employment by stimulating aggregate demand.)

Estimates of the displacement rate in the NJTC are conjectural. The Census Bureau survey suggested that 75 percent of the firms who knew about the NJTC and were eligilbe to receive it used it to increase employment which would have taken place even without the program. 39/ European experience with wage subsidies similar to the NJTC suggests a displacement rate of over 50 percent. 40/

One of the most attractive features of the NJTC was its reported low cost per net job created, even though the displacement rate is estimated to be very large. Although a great deal of uncertainty exists about the cost per net job for any employment stimulus program, rough estimates have been prepared for the NJTC. Isabel Sawhill, formerly director of the National Commission for Manpower Policy, estimated that the cost per net job for the NJTC was approximately $6,300. 41/ Her estimate includes only direct job creation, and ignores indirect increases in employment that occur as the effects of the credit work

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39/ U.S. Census Bureau. New Jobs Tax Survey Covering 1977 Tax Year, Table 7.

40/ Ashenfelter, Orley. Current European Manpower Policies. In Fourth Annual Report to the President and the Congress of the National Commission For Manpower policy. Washington, U.S. Govt. Print. Off. December 1978. p. 67-68.

41/ Sawhill, Isabel V. Employment Subsidies and Tax Credits As a Response to Unemployment. In Fourth Annual Report to the President and the Congress of the National Commission For Manpower Policy. Washington, U.S. Govt. Print. Off., December 1978. p. 38. Sawhill assumed an 80 percent displacement rate.

their way through the economy. The Congressional Budget Office (CBO) has also prepared an estimate. They suggested that the cost per net job for the NJTC was $14,700 to $17,500. 42/ The CBO estimate includes both direct and indirect increases in employment. The disparity in these two figures indicates the weakness of these estimates, particularly when CBO assumed a much smaller displacement rate than did Sawhill.

f. Summary

Wage subsidies work by lowering labor costs for employers. Lower labor costs hopefully induce firms to expand employment while restraining inflation. There is some evidence that the NJTC succeeded in increasing employment and restraining inflation during the recovery from the 1973-1975 recession. In addition, the NJTC appears to have had a relatively low cost per net job created. Lack of knowledge about the program and an unwillingness to participate, however, limited the NJTC's effectiveness. Any future wage subsidy aimed at cyclical unemployment might be able to avoid these problems by vigorously publicizing the program and by simplifying the design. A simpler design that eliminated caps on the subsidy, however, would tend to raise program costs.

42/ Unpublished Congressional Budget Office estimate prepared by Frank Russek at the request of Senators Nelson, Haskell, and Hathaway. Russek assumed a displacement rate of 25 to 50 percent but also added back jobs resulting from the effects of increased aggregate demand generated by the windfall gains.

F. Countercyclical Public Works

1. Economic Development Administration (EDA) Public Works

Over the past decade most public works projects and proposals have dealt with rapid expansion of EDA-type public works including construction, renovation, or repair of local public works (sewers, streets, buildings, and other public facilities.) One of the main objectives of such programs is to generate employment opportunities for workers in construction and related industries.

A $6 billion emergency public works program ($2 billion under 94th Congress and an additional $4 billion under the 95th Congress) was designed specifically as a countercyclical measure in fiscal year 1977. The following discussion is based on preliminary results from an Economic Development Administration evaluation of this program. The Local Public Works Capital Development and Investment Act (LPW I) was passed by Congress over President Ford's veto on July 22, 1976, and became Title I of the Public Works Employment Act of 1976.

Under LPW I EDA awarded over 2,000 grants totalling $2 billion for State and local government public works projects designed to stimulate employment. Funds were allocated among the States based on severity and magnitude of unemployment and within States on the basis of a complicated allocation formula.

Due to the overwhelming response to this program (22,000 eligible applications totalling more than $20 billion were received) a continuation was proposed by President Carter in his economic stimulus package. LPW II was passed by Congress and signed into law on May 13, 1977. The new program, however, had several changes to correct some of the problems encountered under the first wave of funding.

In recent testimony before Congress, Robert Hall, Assistant Secretary of Commerce for Economic Development (June 17 before the Joint Economic

Committee), presented preliminary data from EDA's ongoing evaluation of the LPW I and LPW II programs. Based on actual direct employment data through December 1979, Hall projected that these public works projects (10,616 in all) provided employment for over 1 million persons in the construction industry, representing approximately 96,000 person-years of on-site employment. 43/ In addition to this direct employment, public works projects generate employment in supply industries (indirect employment), and industries affected by increased private sector consumption (induced employment). (These effects also occur in PSE and private sector wage subsidy programs.) Hall estimated that an additional 66,000 person-years of employment were generated in supply industries and another 193,000 to 222,000 were induced as a result of LPW I and II. In sum, the $6 billion countercyclical public works program is estimated to have created between 355,000 and 384,000 person years of employment. Hall then went on to estimate the cost of a person-year of employment. If all employment effects are taken into account the average cost per person-year of employment is estimated to be between $15,500 and $17,000. On the other hand the average cost of a direct person year of employment (on-site job) is estimated to be $62,500. The cost per direct and indirect person-year is about $37,000.

Hall in his calculations has assumed no displacement. Some of those employed on federally funded State and local public works projects, however, would have been employed anyway on other public or private projects in the absence of federal funding. It is necessary to estimate the extent of this fiscal substitution and job displacement to arrive at the net job creating potential of the public works program. (Fiscal substitution results when Federal

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43/ A person-year takes into account the fact that the average worker is employed for a short time on one of these projects, approximately one month.

funds are used for a project that would have been funded by the State or local government in the absence of the Federal money. Job displacement occurs when the Federally-funded projects employs workers that would have been employed in the private sector in the absence of the project.)

Estimates of the substitution and displacement effects show wide disparity as they did for PSE programs. Displacement effects range from a low of 9 percent to a high of 65 percent in the short run and from 80 to 100 percent in the long run. If one were to assume a 25 percent displacement rate, the direct person-years estimated by Hall would fall to 72,000, the indirect to 45,000 (assuming the ratio of indirect to direct jobs remains the same), and the induced to 145,000 to 166,000 (assuming a employment multiplier of between 2.0 and 2.3). Thus, the total person years of employment created, assuming a 25 percent displacement rate, would range between 262,000 and 283,000. The cost of a direct person-year of employment created would then be more than $83,000, of a direct plus indirect person-year $51,228, and of a total person-year $21,000 to $23,000.

It is important to note those groups of unemployed who gain from public works projects to determine if the program is meeting its policy objectives. Of the million persons who are projected to have been employed as a result of LPW I and LPW II (recall that the average worker on these public works projects was employed 3-1/2 weeks), two-thirds were skilled workers, 29 percent unskilled workers, and 4 percent had clerical, service, or administrative jobs. Furthermore, the total wage payments to on-site workers were only about 30 percent of the total $6 billion spent. Thus, this public works program did not greatly aid unskilled workers and the majority of the funds went to payments for other than wages.

LPW I and LPW II projects provided construction employment primarily to workers with strong ties to the construction industry. For most workers, LPW provided a continuity of employment. Only 13 percent of those hired were unemployed just prior to their LPW jobs. However, nearly 35 percent of all workers were unemployed at least once in the year before the LPW hire, while 15 percent were unemployed two or more times.

It is important to note that countercyclical public works programs do more than just create jobs. They also produce necessary and long-lasting public improvements in the form of roads, libraries, schools, sewer and water projects, parks, and so on. These public works programs also may offer local budgetary relief. To the extent that LPW funds allow local jurisdictions not to raise taxes or deter public services, they reduce the financial burdens which often hit State and local economies during recessionary periods.

The timing of LPW projects has been one of the major criticisms waged against these programs. Due to the inability to predict the length and severity of economic downswings, and delays resulting from legislative, administrative, and implemental lags, the stimulative effects of countercyclical public works often end up being procyclical. More specifically, data show that the combined LPW I and II monthly outlays peaked in the second quarter of 1978, three years after the trough of the 1973-1975 recession and well into the economic expansion. Likewise, direct program employment which began in early 1977, peaked in 1978 and continued into 1979. By the time these public works projects were generating employment, construction unemployment had nearly halved from about 20 percent to approximately 10 percent.

The issue as to if the timing problems of public works programs remains insurmountable is highly controversial. While some researchers have argued that a stand-by program which could be quickly implemented and targeted at labor-intensive public works projects would greatly reduce the typical delays, others note that the required planning, the delays in securing materials and a labor force and the time it takes to complete such projects, would still cause LPW projects to be procyclical. A recent OMB study 44/ estimated that even if a program similar to the recent LPW program were to be implemented exactly at the beginning of the economic contraction, and that all projects were started 90 days from implementation, less than one fifth of total program employment and outlays would be generated within an average cyclical contraction (the average is just under a year). If the implementation were delayed one quarter, it is estimated that less than one tenth of project construction activities, 14 percent of total program employment, and 18 percent of outlays would be in place before the downswing ended.

Given that public works projects have been found to be procyclical, it is not surprising that such projects may add to inflationary pressures. However, since public works projects in the past have accounted for a relatively small share of total construction spending, their inflationary impact has probably been minimal. During the peak period of LPWI and II spending in the first nine months of 1978, monthly program outlays, according to EDA figures, averaged less than 4 percent of the total value of new non-residential construction put in place. When the residential sector is included, LPW spending was only 1.8 percent of total spending. However, the availability of labor in the construction industry may pose a problem, depending on the location of projects. In many areas the construction industry cycle does not coincide with the cycle in total employment; in others it is less severe than the cycle in total

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44/ Office of Management and Budget, Special Studies Division, Economics and Government, "Public Works as Countercyclical Assistance," November 1979.

employment. It is in these areas where added demand for labor and materials resulting from public works projects may prove to be inflationary.

Public works programs have done little to increase participants' employability and productivity. This results primarily from the fact that the average public works job is less than one month long and that a large proportion of the jobs go to skilled workers.

2. Other Public Works

Numerous types of public works projects are undertaken by the Federal government in its normal course of business which, if further funded, could be used as countercyclical programs. These include military construction, water resources development projects, the building of new national parks, the rehabilitation and maintenance of existing national parks, municipal sewage treatment plant construction, petroleum storage facility construction, postal facility construction, railroad rehabilitation and improvement, highway bridge repair and replacement, interstate highway repair and construction, airport construction and improvement, and Federal building design, construction and repair. Another type of public works program would be Federal support for apartment construction for low- to moderate-income families.

G. Countercyclical Revenue Sharing*

1. Background

Periods of recession or downturns in general economic activity can produce strains in State and local government budgets. Revenues, such as sales and income tax receipts, which are sensitive to business trends, decline or fail to increase as rapidly as they had previously. At the same time, there is an increased demand for Government services as joblessness rises. This combination can produce deficits in State and local government budgets and lead to actions, such as raising taxes or laying off public employees and reducing public services, that could exacerbate the decline in economic activity and hinder the Federal Government's efforts to stabilize the economy.

Federal concern for State and local governments during periods of economic downturn is heightened by two recent trends in the State-local sector. First, the State and local sector has been growing faster than any other major sector of the economy since 1960, from 9.8 percent of GNP in 1960 to 13.9 percent in 1979. Second, State and local governments' reliance on personal and corporate income taxes and on general sales taxes has increased, from 47.9 percent of State-local tax revenues in 1960 to 52.6 percent in 1978. 45/ Since these sources of revenue are much more sensitive to fluctuations in national economic activity than are the more traditional property taxes, cyclical downswings would have a significant impact on stabilization policy, given the importance of the State and local sector in the overall economy.

There are two interdependent objectives of Federal countercyclical aid to State and local governments. The first objective is to counter the impact of the recession by minimizing the effect of State-local actions on Federal fiscal policy. State and local governments are encouraged to aid in national stabilization policy and accelerate their spending in order to hasten the economic recovery. The second objective is to cushion the State-local sector from severe economic fluctuations by providing fiscal support to partially replace the State and local revenue loss caused by the recession.

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* This section was prepared by Stacey M. Kean, Analyst in Government Finance.

45/ 12 months ending June 1978.

Recent debate on the usefulness of Federal Government countercyclical assistance to the State and local sector centers on contrasting interpretations of the actions of State and local governments during periods of recession. One interpretation commonly known as the "perversity hypothesis" holds that in times of economic downturn the State and local sector behaves in a procyclical (destabilizing) manner, by raising taxes and/or reducing expenditures, thereby intensifying problems associated with Federal efforts to stabilize the economy. The second interpretation of available fiscal data attests that State and local governments' behavior is becoming increasingly countercyclical (stabilizing) as State and local governments apparently draw down their surpluses to maintain or increase expenditures during recessionary periods.

2. The Antirecession Fiscal Assistance Program

Antirecession fiscal assistance (ARFA) or countercyclical revenue sharing represented one component of the Federal Government's program to provide financial assistance to State and local governments experiencing budgetary problems resulting from the 1973-75 recession. Title II of the Public Works Employment Act of 1976 (P.L. 94-369) created the Antirecession Fiscal Assistance Program which distributed $1.25 billion in Federal monies to State and local governments where the unemployment rate exceeded 4.5 percent when the national unemployment rate was above 6.0 percent. Originally authorized for only one year, ARFA was extended at a level of $2.25 billion through the end of FY 78 by Title VI of the Tax Reduction and Simplification Act of 1977 (P.L. 95-30). The program expired at the end of FY 78; Congress did not pass extension legislation.

This program selectively distributed emergency assistance in the form of unrestricted grants to State and local goverments which had been adversely affected by sustained periods of unemployment. One-third of the available funds were distributed to State Governments and two-thirds to local ones. Recipient allocations were based on assigned unemployment rates and general revenue-sharing entitlements. Unemployment rates were used as a measure of how severely a particular goverment was hit by the recession, and the general revenue-sharing allocation was used to measure the size of a jurisdiction.

The effectiveness of the stimulus from a program such as this depends upon when the funds are distributed, what State and local goverments do with the money received, and how quickly the funds are expended. To serve as an effective stimulus during a recession, the funds should be provided when the economy is weakening and treating conditions that force State and local governments into destabilizing behavior.

The size of the stimulus depends upon what State and local goverments do with the money received. Hopefully, the funds are used to expand or maintain public services. To the extent that such expansion or maintenace would not have occured without the Federal funds, the monies will have a stimulative effect through the increased purchases of these services. However, it is difficult to assess precisely the direct impact of the funds because of the commingling of Federal funds with State and local funds. Fiscal substitution of Federal funds for State-local funds may diminish the effectiveness of the program future period. Recipients that do not have an immediate need for the funds may limit the intended stimulative effects on the economy and, perversely, may actually inject the funds into the economy at a later time when a more restrictive Federal policy is appropriate.

According to a General Accounting Office (GAO) study 46/ the majority of antirecession funds used for salaries was allocated to fill positions normally funded by other revenues. Some layoffs were prevented. States and cities reported some new hires, but cities were the only governments planning to rehire a significant portion of previously laid-off employees.

A recent Congressional Budget Office report 47/ anticipates that if an antirecession assistance program is enacted, the funds

> probably would be used mainly to offset revenue shortfalls rather than to increase state and local spending, particularly in view of the sentiment to reduce the size of state and local budgets as reflected in Proposition 13. Of course, the impact on the economy would still be expansive if revenue sharing helped maintain existing spending levels or generated state and local government tax cuts.

3. Current Legislation

The Carter Administration proposed and the 96th Congress considered legislation to re-establish the countercyclical revenue sharing program. However, the exigencies for a balanced budget in fiscal year 1981 caused the demise of the proposal. The program was deleted from the President's budget and not included in the Congressional budget resolutions.

46/ U.S. General Accounting Office. Antirecession Assistance—An Evaluation. November 24, 1977.

47/ U.S. Congress. Congressional Budget Office. Entering the 1980s: Fiscal Policy Choices. January 1980. p. 69.

The Senate passed S. 566 authorizing both antirecession assistance to State and local governments when the national unemployment rate reaches 6.5 percent and targeted fiscal assistance restricted to local governments only with an unemployment rate equal to or in excess of 6 percent. The House passed similar legislation, H.R. 5980, which was laid on the table and S. 566 was passed in lieu.

There is an important difference between the House and Senate bills considered. The House bill uses the change in GNP and real wages and salaries as a triggering mechanism 48/ while both the original program and the Senate bill use the unemployment rate for this purpose.

Because a recession is identified principally by a decline in GNP, its impact on State and local revenues will be determined by changes in the major components of GNP and the extent to which individual governments tax those income sources. Based on the sources of tax revenue used by State and local governments, we would expect the impact of a recession on those governments to be felt mainly through reduced personal income. Since wages and salaries constitute nearly two-thirds of total personal income (transfer payments and interest income are the other main components), it might be appropriate to approximate the change in personal income by including any changes in wages and salaries in an antirecession assistance formula.

The use of unemployment as a means of allocating Federal assistance to State and local governments has come under scrutiny, both as a measure of recession as well as a community's fiscal stress resulting from long-term economic decline.

48/ A triggering factor is an economic variable closely related to changes in overall economic conditions.

Local rates of unemployment are of poor quality and reliability particularly in communities with populations below 50,000. The composite techniques by which local unemployment statistics are developed produce unreliable figures principally because of the methods used to estimate the amount of the labor force outside the unemployment insurance system and to break down labor market statistics to smaller areas. 48a/

H. Job Sharing

Another countercyclical employment program which has been receiving increasing attention is to encourage work sharing via jobless benefits to partially unemployed individuals. In essence these programs would permit the payment of prorated unemployment insurance benefits to employees laid off for a portion of the week as a work-sharing (unemployment-sharing) alternative to total layoffs of selected employees. It is argued that such programs would redistribute the burden of recession and put a halt to the past practice of laying-off minorities, youth, and women first.

The program is perceived as being voluntary on the part of employers with approval of the union required in shops with collective bargaining representation. To date, both sides have voiced reservations about the program, particularly the unions. They see this form of countercyclical work-sharing as spreading the "misery" of unemployment and undercutting the seniority system. 49/

48a/ See Martin Ziegler, Efforts to improve estimates of State and local unemployment, Monthly Labor Review, Nov. 1977, p. 12-18.

49/ Some unions such as Amalgamated Clothing and Textiles Workers Union, the International Brotherhood of Painters and Allied Trades, the International Union of Electrical, Radio and Machine Workers, and the Amalgamated Meat Cutters and Butcher Workmen of North America have had work-sharing clauses of one form or another in their contracts. See Collective Bargaining Negotiations and Contracts, Basic Patterns Clause Finder, Volume 2, p. 60:301-60:305, The Bureau of National Affairs, May 20, 1976.

Currently only California allows the payment of jobless benefits for a one or two-day layoff per week. 50/ Some companies and industries outside California already use reduced workweeks instead of layoffs to reduce costs, but UI benefits are not paid. Congresswoman Patricia Schroeder has introduced legislation which would encourage other States to particpate in the program (H.R. 7529).

If such a countercyclical work-sharing program became widely utilized, there would be less full-time unemployment, more workers would be able to retain their jobs, continue development of their skills, and maintain most of their income. It is also hoped that fringe benefits would be continued. While the California program does not compell employers to maintain fringe benefits, California officials know of no firms participating in the program that had canceled or reduced these benefits.

Employers would also benefit by partipating in the program to the extent that they save the rehiring and retraining expenses that typically occur with layoffs. Those employees who find work elsewhere after they are laid off may never return to their former employers.

The program could also have other effects. It may put an end to the last-hired/first-fired policies of many firms thus aiding blacks, youth and women. It could reduce the need for other countercyclical measures. The program has some drawbacks as well. Since employers are allowed to retain their workers, they may be more anxious to resort to cutbacks than cut costs other ways. The last-hired/first-fired employment policy is not guaranteed to be broken down

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50/ California changed its law in response to passage of Proposition 13 in the summer of 1978. It was feared at that time that the reduction in State revenues would cause a cutback in the public work force, and the new program was enacted to provide an alternative to layoffs.

by this program. Firms may still lay off their new workers and apply a reduced workweek to their more senior and skilled employees. The seniority rights which many workers have spent years to achieve could be easily abrogated by the program.

The costs of a countercyclical work-sharing program using shared unemployment compensation remains uncertain. Several factors would affect the plan's costs under the current Federal-State unemployment insurance system. In nearly every State a company's UI tax rate is based on a host of factors including the number of its employees who collect benefits and the amount of benefits paid. Generally, the more an employer's workers collect in benefits, the more that must be paid in UI taxes.

The program discussed in this section could increase the level of an employer's taxes. Low wage earners, often with short work histories, are usually the workers laid off and who collect benefits. Under this program, however, higher-paid workers with long work histories would be put on shorter hours and receive benefits. Since benefit levels are based on earnings and duration of benefits on work history, those higher-paid workers participating in the program would receive greater benefits for a longer duration. Thus, UI outlays will be larger than would have been the case if low-wage earners with short work histories were laid off. These higher expenditures for UI benefits will raise the amount of taxes an employer must pay into the UI system.

Also, since it is expected that firms will maintain fringe benefits, a company would have to pay more for them than if it laid off workers totally and terminated their benefits. Furthermore, costs would increase because some workers who would have been put on shorter workweeks even without the program will now be eligible to receive benefits. If more claims are filed as a result of the program, administrative costs would also rise.

On the other hand, employers would also be able to reduce their costs. Payrolls would be lower because wages of all their workers, not just the lower paid ones, would be reduced. They would also save rehiring and retraining costs for employees who were laid off and would not have come back.

All in all, the extent to which the added costs outweigh the added reductions, or vice versa, is not clear. Each firm will have to carefully calculate if the desribed countercyclical work-sharing program is a viable alternative to full-time layoffs for its purposes. A complete evaluation of the California program is currently underway which should give some better insights as to the extent of its costs. A similar program was tried in Canada in 1977-1979 but the evaluation of the program was high controversial with the U.S. Department of Labor challenging its validity.

Implementation of this program, assuming it was enacted, should be relatively fast. Employers would decide, within the prescribed rules and regulations, when to put the program into effect for their firms. The program should also yield long-run productivity gains by keeping a skilled workforce gainfully employed. If the program encourages the retention of poor workers, however, such productivity gains will be reduced. In the short-run the program should have no inflationary impact as workers who would have been unemployed are being partially retained by their employers. In the longer run the program may reduce inflationary pressures due to the fact that retained workers will be more productive.

V. WHAT WE HAVE LEARNED

This report has identified the scope and nature of six major countercyclical employment programs and examined the available evidence as to their (1) potential for job creation (including estimates, where available, on cost per job created), (2) speed of job creation, (3) effects on program participants, and (4) effects on wages, prices, and productivity in both the short- and long runs. As reviewed in the first chapter the cyclically unemployed are unevenly distributed across sectors, occupations, socioeconomic groups and regions. It is important to have these facts because different programs affect different groups and within different time frames.

The second chapter discussed the existing Federal programs which may be utilized to lessen the financial impact of being cyclically unemployed. The most responsive program to economic downturns is the unemployment insurance (UI) system. As noted in the discussion, however, not all cyclically unemployed have the same level or duration of benefits due to varying preunemployment wage levels and number of years worked. Trade Adjustment Assistance (TAA) has come to play a major role in this recession having been granted to 380,000 automobile workers in FY80. While the food stamp program has also been shown to be somewhat responsive to recessions, the other major income tranfer programs are, at best, marginally responsive.

Chapter three briefly discussed the interrelationship between changes in the unemployment rate and the Federal deficit. According to recent CBO estimates a 1 percentage point change in the unemployment rate (more specifically from 7.0 to 8.0 percent) would increase the budget deficit by $25 to $29 billion. Five to seven billion dollars of this was attributed to increased outlays (70 percent due to increased UI expenditures) and $20 to $22 billion due to revenue losses. CRS in an earlier work, however, has noted that the size of the deficit associated with a 1 percentage point change in unemployment varies depending upon the initial rate of unemployment. The higher the unemployment rate, the greater the increase in the size of the deficit.

A variety of countercyclical employment programs were discussed in chapter four. Generally, there are two types of programs — direct and indirect. Public service employment (100 percent wage subsidization in the public sector) and private-sector wage subsidization are forms of direct job creation. Public works is also a direct program with jobs being created as a result of increasing expenditures on public works projects. Public works programs also produce public improvements in the form of roads, sewer and water projects, public buildings, and the like. Tax cuts (personal, business, and payroll) and countercyclical revenue sharing are examples of indirect job creation. Countercyclical work-sharing is a job maintenance program.

Of all the measures examined, the least expensive and the most rapidly implemented were PSE and private-sector wage subsidies. PSE has clearly been the more popular of the two in terms of Government support. However, current Federal emphasis on private sector initiatives (see, for example, the priorities for job creation in the Humphrey-Hawkins Act) may shift this balance.

In direct job creation policies, one faces the problem of displacement — Federal funds being spent for activities which would have taken place even in the absence of the Federal program. The estimates for displacement for countercyclical PSE, private sector wage subsidization, and countercyclical public works vary widely. Because of this it is extremely difficult to compare the costs of creating a job across these programs. By juggling the displacement rates one could "prove" that any given program is "better" than the rest. Thus, no comparisons will be made in this paper. Policymakers, however, will need to design their programs to minimize the displacement effects, as in the CETA revisions of 1978, in order to achieve the greatest employment impact for the monies spent. Countercyclical revenue sharing may also cause State and local governments to substitute Federal funds for projects which would have been undertaken by the State and local government regardless.

While PSE and wage subsidies may be targeted at large groups, public works programs are directed primarily toward the construction and its support industries. The choice between PSE and wage subsidies, since they can both be targeted at the same group, depends upon the preferences of the policymakers. The costs per job created of the two programs are believed to be relatively similar and the time for implementation is shortest for these two programs. Wage subsidies in the past, however, have been inhibited by inadequate dissemination to employers of the provisions of the law, overly burdensome administrative procedures, and subsidies which were viewed as too small by employers.

Economic theory suggests that the private-sector route would probably yield a higher benefit-cost ratio. Private employers have an established production process and marketing channel for the products produced, whereas PSE programs often are undertaken with no clear definition of the expected output and no clear measure of productivity. On the other hand, public service employment may fill some unmet public need while subsidized private sector firms may displace other production of nonsubsidized firms.

Tax cuts are probably the least effective short-run employment-inducing program per dollar spent. Since beneficiaries typically save a substantial portion of their tax cut, the job-creating impact is reduced and severely delayed.

Countercyclical revenue sharing is not a direct job-creating program. Rather, its purpose is to lessen the impact of economic downturns on State and local governments (allow them to maintain the level of current services) and to influence the State or locality to behave in a stabilizing manner (e.g. not to raise taxes).

Countercyclical work-sharing programs are geared toward worker retention. While not directly job creation in intent, they do, if successful, prevent workers from being laid off full time. The experience with work-sharing programs as a countercyclical tool in this nation is quite limited. Such programs are quickly implemented. The costs of such programs, however, remain hypothetical.

In response to the current recession, policymakers may choose one or more of these programs to create jobs. (Of course, other programs exist which may be more preferable to the decisionmakers.) Two factors must be kept in mind, however. First, the average postwar recession has lasted slightly less than one year. We are now six months into our current recession which suggests that if any of these programs are implemented to reduce unemployment, it must be done fairly rapidly or there is a good chance that the program may end up being procyclical rather than countercyclical. Second, this recession so far has centered on the automobile and its support industries. With the granting of TAA benefits to autoworkers and the availability of SUB plans, these workers may be able to "ride-out the storm" without much financial difficulty. Of course, this assumes the recession will end in late 1980 or very early 1981. To the extent that these workers currently suffering from the economic downturn are members of multiearner families, the financial burden is also reduced.

The real economic problem facing the Nation then, may be a structural one. The problem of structurally unemployed workers are always exacerbated by economic downswings and it is perhaps in this area that job creation policies should be focused. Some researchers suggest that the current weakness of the auto industry is a structural rather than a cyclical one. If these researchers are correct, then a greater emphasis may need to be put on training and retraining programs. Most likely, an ideal package would contain job creation programs for the structurally unemployed and training and retraining programs for skilled workers who are losing their jobs as a result of structural changes in the economy.

[HIGHLIGHTS FROM --]

PUBLIC WORKS AS A COUNTERCYCLICAL TOOL

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HIGHLIGHTS FROM PUBLIC WORKS AS COUNTERCYCLICAL ASSISTANCE

Executive Office
of
The President
Office of Management and Budget
Special Studies Division
Economics and Government

November 1979

PREFACE

In November 1979 the Special Studies Division/Economics and Government of the Office of Management and Budget prepared an analysis of the effectiveness of public works as a means of countercyclical assistance. The report examined post war cyclical experiences nationally and in subnational areas to assess the feasibility of developing appropriate national trigger, targeting, and allocation mechanisms that could be used to effectuate a national standby countercyclical public works program. In addition, the report examined the timing requirements associated with construction projects to determine whether such requirements precluded the use of public works construction as a countercyclical tool. Finally, the report briefly analyzed the performance of past countercyclical public works programs with a view to determining the effectiveness of such programs in meeting the needs of the unemployed.

The purpose of this report is to highlight the major findings of the November report as well as to briefly discuss the approach taken in reaching these conclusions.

This report was prepared by Anthony J. Sulvetta and Dr. Jules Lichtenstein under the supervision of Howard M. Smolkin, Deputy Associate Director, Special Studies Division, Economic and Government of the Office of Management and Budget. Opinions and conclusions expressed herein should not be construed as representing the views of the Office of Management and Budget, Executive Office of the President.

MAJOR FINDINGS

- A national countercyclical public works program cannot be triggered and targeted to cyclically distressed areas in a timely manner to compensate for cyclical fluctuations in unemployment and aggregate economic activity.

- Even if it were possible to time a countercyclical program comparable to the Local Public Works Programs of 1976-1977, to coincide with a national cyclical downturn, the employment build-up patterns associated with public works construction activities (the necessary time to construct public works facilities) would lead to a significant overlap of job generation and general economic stimulus into periods of national economic recovery.

- Public works programs have had minimal impact on the unemployed due to two factors — 1) low labor intensity of public works projects and 2) the mismatch between skill requirements of construction activities and the lack of comparable skills among the unemployed.

- Duration of employment on public works for individual workers is: too short to provide meaningful relief from previous periods of unemployment, of insufficient time to maintain workers skills and work habits, and too short a period for on-the-job training.

- In addition to timing problems and the inability of public works programs to effectively target benefits to the unemployed, public works are an extremely costly means of generating employment. Under various assumptions of the model presented in the text, including the degree to which Federal funds were substituted for local funds in public works construction, the gross cost of generating a construction person year of employment ranges from $70,000 to $198,000*.

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*An estimate of $70,000 per direct person year of construction employment assumes zero substitution.

Finding No. 1: A Standby Countercyclical Public Works Program Cannot be Triggered in a Timely Manner

In order to analyze whether a standby countercyclical public works program can be triggered in a timely manner, it was necessary to investigate several questions:

- Are economic indicators available that signal the onset of a recession?
- Do changes in the State, regional and local economies parallel changes in the national economy?
- Are recessions similar such that assumptions can be safely made about the impact of future recessions on national and subnational economies?

To analyze these questions the authors of the SSD study examined several indicators in the context of the six recessions that have occurred since the end of the Second World War. These included selected indexes of the Bureau of Economic Analysis' index of leading indicators, the composite list of leading indicators, unemployment rates, and quarterly estimates of Gross National Product (GNP). Because of its importance to public policy, the focus was on the suitability of the unemployment rate as a trigger mechanism. The unemployment rate is often thought of as a key measure of economic health. Results indicate there is little regularity between changes in the unemployment rate and changes in quarterly GNP — which is used to time the cyclical turning point at the start of a recession as defined by the National Bureau of Economic Research (NBER). The authors observed that:

- Changes in the rate and number of unemployed just before and after an NBER-dated recession, are negligible. As such unemployment is not a reliable predictor of a recession.
- A trigger based on the unemployment rate is unsatisfactory for several reasons:
    - Rates differ from recession to recession and may either coincide with or lag the start of a recession.

- Differences in the unemployment rate before and after the start of a recession as well as the unemployment rate which coincides with the NBER-dated start of a recession are unrelated to the severity or duration of a recession.

In short, an unemployment rate cannot be used to trigger a national standby countercyclical public works program in a timely manner. Moreover, regional, State, and local cyclical conditions can vary from national conditions and indicators of a national recession may fail to reflect accurately the character of subnational cyclical behavior.

Synchronization of a national standby countercyclical public works program with regional and local cyclical economic distress is virtually an impossible task. Each recession tends to have unique impacts on industrial sectors of the economy. Although regional economies are tending to become similar structurally, recent studies indicate that each recession has had a different impact on the economy of regions and localities. As such, past experience is only of limited value in understanding subnational cyclical behavior (i.e., cyclical amplitude, duration and responsiveness) during a recession.

Finding No. 2: Even If a Standby Public Works Program Could be Triggered in a Timely Manner It Would Have a Procyclical Impact

In order to analyze whether a standby public works program can have a countercyclical impact on the economy during a recession several basic questions needed answering:

- How long does it take to complete projects funded by a standby public works program once the program has been triggered?
- What is the timing of the value of construction put-in-place for the program?
- When and how many jobs are created by such a program?

To analyze these questions the authors developed a model which focused on the time required to complete public works construction and the stream of employment generated over time by such projects. The model matched information on the type and size of projects funded by LPW with data on construction timing and employment generation which were available on a project type and size basis.

This project data was obtained from: (1) The Economic Development Administration's regular public works program, (2) published and unpublished BLS sources, (3) construction reports of the Bureau of the Census, (4) the Public Works Impact Program (PWIP) and (5) a limited number of completed Local Public Works (LPW) projects. The model assumed:

> Assumption No. 1: The type and size of public works projects to be funded by the hypothetical standby program would be similar to those funded under LPW, thus providing State and local governments maximum discretion in the selection of projects.
>
> Assumption No. 2: Unlike the LPW program, where projects were funded in two phases (LPW I for $2 billion and LPW II for an additional $4 billion), the authors assumed a single $6 billion program funded at one point in time.
>
> Assumption No. 3: Standby legislation exists to authorize the expenditure of local public works funds, and unrealistically, a trigger mechanism identifies the start of a recession.
>
> Assumption No. 4: Regional and local economic conditions parallel those of the national economy, i.e., the magnitude and change in direction of regional and local unemployment rates parallel national unemployment rates. The result would be that regional and local economies would neither lead nor lag at the start or end of a recession, and that the severity of a recession in regions and localities would equal that in the nation.
>
> Assumption No. 5: Administrative and implementation time delays at the Federal, State, and local levels, which include advertising (solicitation of construction bids), time required for bid processing, contract awards, and construction starts are minimal. All projects are assumed to start construction 90 days from the beginning of a recession.
>
> Assumption No. 6: Finally, the length of time required to complete project construction is assumed to be 10 percent less than is normally required (i.e. a project 90 percent complete is assumed to be fully complete for calculating employment generated). Obviously, this will serve to accelerate employment generated as well as program outlays.

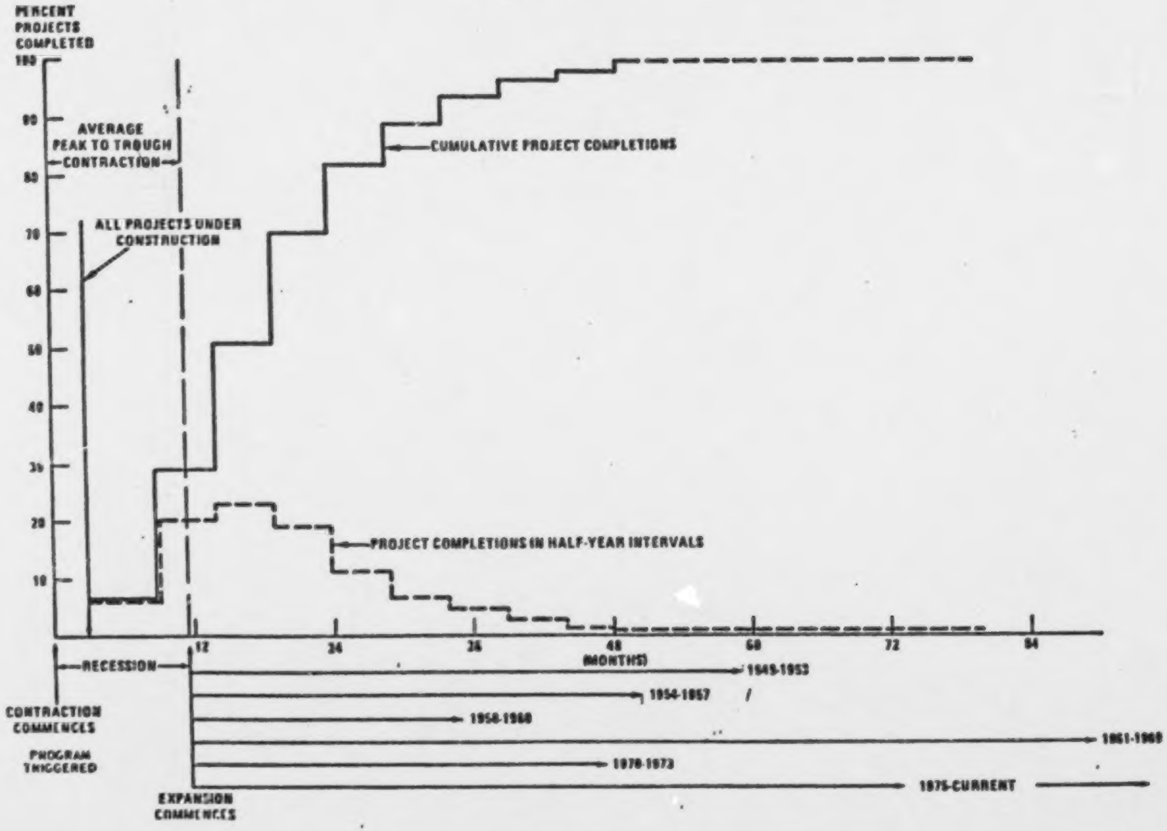
The assumptions discussed above eliminate many of the limitations of countercyclical public works programs cited in the literature. Nevertheless, even utilizing these assumptions the model estimates that countercyclical public works comparable to those funded under the LPW program are inherently incapable of performing effectively as a countercyclical tool.

An examination of the characteristics of the six post war recessions indicates that their duration has been short — an average of only 11.8 months. This is a period far too short for a public works program to perform in a countercyclical manner given the long period required for construction of projects. Even if a program could be triggered exactly at the beginning of a recession and all projects start construction 90 days (3 months) after the program begins, the bulk of the employment would be generated after the recession ended. This employment would be generated during the economic recovery when total national as well as construction industry unemployment are declining. This situation is illustrated in the following Figure. The model illustrates that the length of time required to complete construction of public works projects extends well beyond the end of the average post war recession. The model estimates that due to the length of time required to complete projects comparable to those funded under LPW, less than 8 percent of all projects would be completed 9 months after the start of the average recession. About 30 percent of all the projects would take more than 2 years to complete. Thus, project construction would extend well into each of the six post war recoveries, even under assumptions which eliminate most barriers to expeditious implementation.

As expected, the length of time required to complete project construction is related to project size (as defined by project cost). Larger projects take longer to complete. Approximately 50 percent of all projects costing $250,000 or less would be completed within 12 months compared to 4.1 percent of projects costing between $1 million and $3 million. This suggests that smaller, low cost projects be given preference over larger, high-cost projects in a properly designed countercyclical public works program.

Smaller projects appear to have other advantages including the capability to diminish the importance of labor and material bottlenecks, concentrate employment opportunities locally, and if implemented expeditiously, have a greater tendency to be countercyclical than larger projects. However, a serious question arises as to whether a funding limitation of this type would alter

ESTIMATED PROJECT COMPLETIONS OVER AN "AVERAGE" POST WAR RECESSION AND ENSUING EXPANSIONS
(11.8 MONTH CONTRACTION)



local public works priorities. Bourdon, Perloff and others have advanced the thesis that a dollar limitation on project funding may change a community's objective function and result in the funding of projects with limited social and economic value. Alternatively stated, local communities may not act in an economically rational manner if Federal project selection criteria are used. The result may be the construction of projects which are wasteful or useless.

Moreover, even assuming a situation in which project cost is limited to $500,000 and all projects start construction exactly 3 months (90 days) after the start of the program, data indicate that less than 11 percent of these projects would be completed within six months from the start of the program.

The economic stimulus of a countercyclical program is generally defined in terms of the stream of dollar expenditures over time. The model illustrates that nearly 15 percent of the $6 billion hypothetical public works program would be spent between the third and ninth month after the start of a recession, with less than 47 percent spent 15 months after all projects start construction. As such, more than 56 percent of all funds (under our accelerated expenditure assumptions) are estimated to be outlayed during the recovery. Smaller projects, requiring 12 to 18 months to complete, have accelerated outlay patterns.

Outlay data provided by the Economic Development Administration closely approximate this pattern generated by this model. When LPW I and LPW II data are adjusted to simulate the outlay of funds for both phase I and II at the same time, adjusted outlays closely parallel the model's results.

Expenditure data are used to estimate the employment generated by a public works program. Using the authors' computational procedure, the hypothetical program is estimated to generate approximately 86,500 person years of employment.* Less than 15 percent of all person years of employment are generated within nine months after the start of the recession. Nearly 95 percent of all person years are generated within two and one half years from the start of all construction activities. Over 78 percent of the person years generated during this period would occur during the recovery.

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*Estimates on cost and employment generation of LPW provided by EDA, after the analytical portions of this study were completed, are similar to the study's findings. As of November 1979, EDA estimated that approximately 86,000 person years of direct construction employment would be created (compared to our estimate of 86,500 person years) at a cost per person year of $69,767 (our estimate of $69,300 was slightly less).

Finding No. 3: Past Countercyclical Public Works Programs have Provided Few Jobs to the Unskilled-Unemployed

Past countercyclical public works programs have hired relatively few unskilled-unemployed due mainly to two factors (1) low labor intensity of public works projects, and (2) the considerable mismatch between the skill requirements of construction activities and the low skill levels of most unemployed.

Labor intensity, i.e. the proportion of total project cost spent on construction wages/salaries, of both the PWIP and LPW programs was only about 22 percent, despite the fact that their project type and mix differed substantially from one another. As such, the bulk — 78 percent, of each program's expenditures operated simply as a fiscal stimulus. According to Robert E. Hall, "The main thing that local public works do is to increase the demand for gypsum board and other materials that are very elastically supplied by other sectors. The effect is just the same as the effect of a general increase in expenditures." In other words, whatever special influence local public works have within labor market areas derives from the 22 cents out of every dollar of the program spent as direct wage payments.

Neither the PWIP nor the LPW program provided a substantial proportion of the jobs they generated to the unemployed. Specifically, the proportion of jobs generated by the PWIP program which went to those who were unemployed just prior to being hired was only 27 percent, and just 12 percent for the LPW program. This is primarily due to the fact that each program required a relatively large share of skilled workers — about 47 percent of all jobs generated by the PWIP program and about 75 percent of all jobs generated by the LPW program. Studies show that the proportion of jobs going to the unemployed is directly related to the proportion of unskilled labor required by a public works project.*

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*Unskilled and semi-skilled workers suffer more frequent and longer periods of unemployment during a recession than do skilled workers.

Finding No. 4: Duration of Employment Provided by Past Countercyclical Public Works Jobs has been Too Short to be Meaningful

An analysis of past countercyclical public works programs has shown that the length of time a typical worker is employed on a construction project is too short to: (1) provide meaningful relief from previous periods of unemployment, (2) maintain job skills, and (3) provide on-the-job training.

High labor turnover on construction projects reduces the ability of a public works program to provide either employment continuity, income, or skill maintenance to program participants during a recession. Under the PWIP program for example, the average duration of employment for all workers amounted to only 4.1 weeks. Fifty-eight percent of all workers worked 2 weeks or less.

The average duration of employment for unskilled workers, who had experienced more frequent unemployment prior to being hired, was 3.7 weeks compared to a 4.2 week duration for skilled workers. Preliminary data for the LPW program indicate that the average duration of employment for all workers was 3.5 weeks — 3.5 weeks for skilled workers and 3.4 weeks for unskilled workers.

Wages and salaries paid to the previously unemployed represented a small proportion of the total expenditures for each program. Under the PWIP program 27 percent of all individuals who were previously unemployed received 33 percent of total wage payments — less than 7 percent of total program costs. For the previously unskilled-unemployed, earnings per hour were less than 55 percent of the hourly wages paid to previously employed skilled workers.

Under the LPW program, the estimated 12 percent of the individuals who were previously unemployed received about 14 percent of the program wage bill or slightly more than 2 percent of total program costs. Earnings per hour for unskilled workers, regardless of previous employment status, remained substantially below those for skilled workers — less than 70 percent of the skilled worker hourly rate. Thus the presumed advantages of public works programs — that the direction and composition of spending can be targeted to certain areas and groups to provide income and employment benefits — are questionable if examined in light of the available data.

Finding No. 5: Public Works are an Extremely Costly Means of Generating Jobs*

In order to analyze the cost of generating employment using a countercyclical public works program it was necessary to address a number of questions:

- What is the direct, indirect and induced employment as well as their sum or "total" employment generated by a countercyclical public works program?
- What is the "net" employment (accounting for factors such as "displacement" and "crowding out" which decrease employment) generated by a countercyclical public works program?
- What is the timing of "total" employment likely to be?
- How do job costs differ depending on the measure of employment used?

To determine "total" employment the authors made several assumptions. First, the sum of indirect and induced employment generated was assumed to be approximately 2.7 times the amount of direct (construction) employment generated.** Second, induced employment effects, i.e. employment generated from the expenditure of wages and salaries by construction workers and workers in supplying industries are assumed to lag the generation of direct (construction) employment by 6 months. For convenience, it is assumed that the value of construction put-in-place is immediately translated into indirect (i.e. construction supplying industry) employment. Results indicate:

- Approximately 86,500 direct jobs, 66,000 indirect jobs, and 167,700 induced jobs (i.e., "total" employment of 320,200) would be generated by a hypothetical countercyclical public works program funded at

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*A job is defined as a person year of employment, i.e., 1800 hours of employment per year.

**Estimate developed by the Rand Corporation of the gross multiplier effect of public works construction activities.

$6 billion with a distribution of projects in terms of type and size, similar to that funded by the LPW program.*

— Induced employment represents the largest share of "total" employment — over 52 percent; indirect employment, i.e., employment in supplying/service industries the least — 21 percent; and direct employment approximately 27 percent.

The timing of "total" employment is analyzed in terms of the length of time required to complete construction projects for direct (construction) jobs, and the assumptions, noted above, about when indirect and induced jobs are generated. Results indicate nearly 85 percent of total employment is generated during a recovery and nearly 23 percent of the program's "total" employment occurs two years after the program's implementation.

It is widely recognized that several factors operate to reduce the employment actually generated by a countercyclical public works program. A measure of "net" as opposed to "total" employment generated is necessary. Among the factors contributing to a reduction in "total" employment the authors cite; (1) labor hoarding and inventory accumulation, i.e., the tendency of firms to hoard labor and accumulate unnecessary inventories during recessions which result in little increase in employment when production increases; (2) substitution and "crowding out", i.e., possible reductions in private consumption and investment due to Federal investment; and (3) displacement effects i.e., the substitution of Federal for State and local funds in public works construction activities.

The authors focus on the degree to which displacement of State/local resources by Federal resources reduces the employment generated by a public works program. Because there is little empirical evidence dealing with the degree of displacement which would actually occur for a Federal public works program, they have developed net employment estimates for a broad range of displacement rates. They specify four possible displacement rates ranging from a low of 15 percent of State/local funds displaced by Federal funds, to a high of 65 percent.* Fifteen percent is lower than the rate used by Taub and Beale who estimated, for a sample of 50 jurisdictions receiving LPW funds, a displacement/substitution rate of 29 percent, i.e., a displacement rate of 20 percent in addition to a crowding out effect of 9 percent. Others have estimated displacement of State/local funds as high as 60 percent in the short run and up to 80 and 100 percent after one year. Gramlich's work indicates that displacement has the potential to cause an actual decline in Gross National Product thus possibly offsetting any net increases in employment.

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*Alternative estimates computed using the Chase Econometric Inc. methodology indicate a total of approximately 260,000 person years of employment would be generated, i.e., 81 percent of the person years of employment derived by the model.

"Net" jobs and the cost per "net" job vary considerably depending on the displacement rate assumed. At an unrealistically low rate of 15 percent, approximately 272,000 jobs are generated at a cost of about $22,000 per job. The cost of a "net" direct (construction) job amounts to over $81,000 at this displacement rate. A 65 percent displacement rate will result in only 112,000 "net" jobs, i.e., only 40 percent of the "net" jobs generated at the 15 percent level. At $53,000 per "net" job - their cost is over 2.4 times more per job than those generated at the 15 percent rate. The cost of a "net" direct (construction) job at a 65 percent displacement level approaches $200,000.

Even with our limited knowledge of the impact of displacement it is conceiveable that a standby program would lead to significant anticipatory effects. If a State or local government thinks that Federal funds will become available during a recession this will be sufficient to either expedite or delay planned construction projects which will result in higher displacement rates.

The following Table summarizes the job costs for different "total" and "net" measures of employment generated.

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*"Net" program employment estimates are approximations due to: (1) the likelihood that having overestimated "total" employment in preceding sections will also result in overestimating displacement adjusted estimates; (2) disregarding the potential implications of "crowding out" of private sector investments although "crowding out" could be implicitly factored into higher displacement rates used in the analysis; and (3) the use of a constant factor displacement rate in all time intervals which disregards the implications of intertemporal displacement (the postponement or acceleration of local construction activities).

Cost Per Job Estimates*

	"Total" Estimate	"Net" Estimate Displacement Rates 15%	25%	45%	65%
Cost per Direct Job	$69,320	$81,554	$92,427	$126,037	$198,059
Cost per "Total" (i.e., Direct, Indirect & Induced) Job	$18,735	$22,041	$25,190	$ 34,064	$ 53,530

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* A job is defined as a person year of employment, i.e., 1800 hours of employment per year.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

December 30, 1982

Ms. Renee Coe
Senate Subcommittee on
Employment and Productivity
Room 4230
Dirksen Office Building
Washington, D.C. 20510

Dear Ms. Coe:

Enclosed as you requested is a copy of the paper, "Budgeting for Capital Infrastructure: Which Level of Government?"

Sincerely,

Lawrence W. Hush

Lawrence W. Hush
Fiscal Economist

Enclosure

BUDGETING FOR CAPITAL INFRASTRUCTURE: WHICH LEVEL OF GOVERNMENT?

Introduction

Many reports have been published in the popular press 1/ about the decay of the capital infrastructure. The reports generally criticize the Federal government for contributing to this decay. They suggest that the Federal role expand, and that adoption of a Federal capital budget 2/ will help solve the problem. The data in this paper raise serious questions about these three assertions.

-- During the 1970's Federal real capital spending for state and local infrastructure grew rapidly (an average increase of 2.2% per year), while state and local real spending from their own sources declined nearly twice as fast (an average decrease of 4.2% per year).

-- Further expansion of the Federal role may merely result in even greater reductions by states and localities, resulting in net declines in total real capital spending.

-- Real capital spending for state and local infrastructure increased by the Federal government, which does not have a capital budget; it decreased by states and localities, which do have capital budgets.

Is the Capital Infrastructure Deteriorating?

The capital infrastructure of this country is owned by the Federal government, states and localities, and the private sector. Much of the concern is for the public infrastructure owned by states and localities -- roads, bridges, water and sewer systems, mass transit and state and local public buildings.

Identifying the condition of the capital stock and projecting capital needs is not the simple task suggested by many. The needs depend on the interaction of many complex factors including age, expected use, and specified standards of the capital facilities. 3/

Age of facility.--Analysis based on the age of a facility is the easiest way to calculate capital needs or projected costs, but it can produce major errors. Maintenance in past years, technology (and newer technology is not always better), weather, use of salt on roads, and other factors can significantly lengthen or shorten the life of a facility. In many cases capital continues in good condition long beyond its originally estimated useful life.

Expected use.--How long a facility will last or how useful it will be depends on the amount and type of use expected from it. For example, it has been estimated that one heavy truck load can cause as much wear on a highway as 9,600 automobiles. Restricting the use of roads and bridges to automoblies may extend their life by decades.

Specified Federal standards.--Assessments of capital needs are frequently based on some arbitrary engineering standards often set by Federal regulation, such as those for federally-assisted highways or sewage treatment plants. Capital structures may in fact be functioning adequately by somewhat lower but still reasonable standards. When needs are estimated using gilt-edged standards, the needs are, of course, enormous.

All of these factors make an objective evaluation of capital needs very complex. Nevertheless, there seems to be a broad concensus that important needs are not being met.

Estimated value of the state and local capital stock.--Table 1 provides some perspective on the state and local capital infrastructure. These data are an estimate of the value, in constant 1972 dollars, of the roads, bridges, water and sewer systems, buildings, mass transit, and other structures and capital equipment owned by states and localities.

Despite some claims that the value of the infrastructure is rapidly deteriorating, the estimates show that the value of the capital infrastructure has not declined. However, the rate of increase has dropped from an average of more than 5% per year in the late 1960's to 0.4% in 1981. Data for 1982 are not available, but it may be the first year that the value of the state and local capital stock declines.

[INSERT TABLE 1]

State and Local Capital Spending

The slow growth in the value of the infrastructure is explained primarily by reductions in real state and local capital spending. This spending is financed in two ways: by Federal aid, and by state and local own sources, such as taxes, user fees, or borrowing. As shown in Table 2, state and local capital expenditures supported by Federal grants grew from 25% of the total in 1970 to 39% in 1980 -- increasing by more than half in only 10 years. These grants are only those for construction, rehabilitation, or acquisition of physical assets. They do not include grants for payments to individuals (such as public assistance or medicaid), human services, or general revenue sharing, which also have grown steadily in real terms for several decades.

[INSERT TABLE 2]

Table 1.--ESTIMATES OF STATE AND LOCAL NET CAPITAL STOCK
IN CONSTANT 1972 DOLLARS 1/
(calendar years; dollars in billions)

Five-year Averages	Net State and Local Capital Stock	Average Annual Percent Increase 2/
1960-1964...............	313.8	5.0%
1965-1969...............	406.3	5.2
1970-1974...............	499.8	3.0
1975-1979...............	559.2	1.3
Annual		
1980.....................	577.8	0.9
1981.....................	580.2	0.4

1/ Excludes land and business inventories.
2/ John C. Musgrave, "Fixed Capital Stock in the United States: Revised Estimates," Survey of Current Business (February 1981), U.S. Department of Commerce, Bureau of Economic Analysis, Washington, D.C., and more current revisions.

Table 2.--STATE AND LOCAL CAPITAL EXPENDITURES
(calendar years; dollars in billions)

				(Percent of Total)		
	Federal Grants	Own Sources	Total	Federal Grants	Own Sources	Total
Five-year Averages						
1955-59......	$1.8	$10.8	$12.6	13.6%	86.4%	100.0%
1960-64......	3.7	13.0	16.7	22.1	78.0	100.0
1965-69......	5.6	20.1	25.8	21.9	78.1	100.0
1970-74......	8.8	24.9	33.7	26.1	73.9	100.0
1975-79......	16.6	27.7	44.3	37.4	62.6	100.0
Annual						
1970.........	7.5	22.2	29.7	25.1%	74.9%	100.0%
1975.........	12.2	30.5	42.7	28.6	71.4	100.0
1980.........	22.4	35.2	57.6	38.9	61.1	100.0
1981.........	22.0	33.9	55.9	39.4	60.6	100.0

Sources: Department of Commerce, Bureau of Economic Analysis, "Survey of Current Business," various years, and revisions; and OMB data on capital grants.

Table 3 shows this spending in constant (1972) dollars. Real capital expenditures grew an average of 6.7% per year in the early 1960's and slowed to 1.4% per year by the end of that decade. By the early 1970's they declined 1.8% per year and the decline increased to 2.6% per year in the late 1970's. The decline continued in 1981. 4/

[INSERT TABLE 3]

Table 3 also shows Federal grants that financed capital expenditures. Federal grants for capital spending in constant dollars grew very rapidly in the late 1950's and early 1960's, almost entirely due to financing for the interstate highway system. The growth in the late 1970's was primarily in grants for community development, sewage treatment plants, highways, mass transit, and a temporary anti-recession public works program.

The data for 1976 and 1977 deserve special mention. The simultaneous rapid increase in grants and sharp decline in state and local own source spending suggest states and localities may have cut back because of the increase in Federal grants. In 1976 Congress enacted an economic stimulus program to fund local

Table 3.--STATE AND LOCAL CAPITAL EXPENDITURES IN CONSTANT 1972 DOLLARS (calendar years; dollars in billions)

				Average Annual Percent Growth		
	Federal Grants	Own Sources	Total	Federal Grants	Own Sources	Total
Five-year Averages						
1955-59......	$ 2.8	$ 17.5	$ 20.4	26.9%	1.1%	4.5%
1960-64......	5.8	20.3	26.0	7.6	6.5	6.7
1965-69......	7.6	27.3	35.0	3.0	0.9	1.4
1970-74......	8.5	24.3	32.8	0.8	-2.7	-1.8
1975-79......	10.5	17.7	28.2	3.6	-5.6	-2.6
Annual						
1970.........	$ 8.5	$ 25.4	$ 33.9	4.9%	-8.9%	-5.8%
1975.........	8.8	22.1	31.0	7.1	-9.9	-5.7
1976.........	10.4	18.3	28.6	17.5	-17.5	-7.5
1977.........	11.1	15.3	26.5	7.1	-16.0	-7.6
1978.........	11.2	16.9	28.1	0.4	10.5	6.2
1979.........	10.8	16.1	26.9	-2.9	-5.0	-4.2
1980.........	10.6	16.6	27.2	-2.5	3.2	0.9
1981.........	9.9	15.2	25.1	-6.5	-8.7	-7.8

Sources: Department of Commerce, Bureau of Economic Analysis, "Survey of Current Business," various years, and revisions; and OMB data on capital grants.

construction. States and localities may have withheld their own funds in 1976 and 1977 pending project approvals by the Federal government. 5/ The increase in 1978 may have been an effort to catch up on what they otherwise would have spent on their own.

While Federal budgeting for capital grants was increasing, states and localities were cutting back. In constant (1972) dollars, own source capital spending declined from $25.4 billion in 1970 to $16.6 billion in 1980, an average annual decline of 4.2%.

Why Did States and Localities Cut Back on Budgeting for Capital Spending From Their Own Sources?

State and local budgeting for capital infrastructure fell significantly during the 1970's. The decline could be the result of many factors, some of which are discussed briefly below.

Declining enrollments for education.--During the 1960's, capital spending for education grew with school enrollments for elementary, secondary, and higher education. As these enrollments declined in the 1970's, capital spending for education also declined, as shown in Table 4, from $9.1 billion in 1970 to $7.1 billion in 1980 (in constant 1972 dollars). Most of this decline was in the latter half of the decade. Capital spending for education is financed almost entirely from state and local own sources, not Federal grants.

[INSERT TABLE 4]

Table 4.--STATE AND LOCAL CAPITAL SPENDING IN CONSTANT (1972) DOLLARS: EDUCATION AND NON-EDUCATION
(calendar years, dollars in billions)

		Non-Education			
	Education	Federal Grants	Own Sources	Total	Total
Annual amounts					
1970..............	$9.1	$8.2	$16.5	$24.8	$33.9
1975..............	8.9	8.8	13.2	22.0	31.0
1980..............	7.1	10.6	9.5	20.1	27.2
Change, 1970-1980.	-2.0	2.3	-7.0	-4.7	-6.7
Average annual percent change					
1970-1975.........	-0.5%	1.3%	-4.4%	-2.3%	-1.8%
1975-1980.........	-4.5	3.7	-6.4	-1.8	-2.6
1980..............	2.2	-2.5	3.9	0.4	0.9
1981..............	-15.4	-6.4	-3.7	-5.1	-7.8

Source: Department of Commerce, Bureau of Economic Analysis, unpublished data, and OMB data on capital grants.

Real capital spending for education is about one-fourth of total capital spending and accounts for 30% of the total decline. Capital spending for other purposes explains most of the decline, and decreased from $24.8 billion in 1970 to $20.1 billion in 1980. The average annual rate of decrease of capital spending from own sources for non-education purposes was 5.4%, significantly faster than the 2.5% average annual decrease for education.

General effect of Federal capital grants.--Federal capital grants finance a significant portion of state and local spending for capital purposes other than education. In 1970 they were half as large as state and local capital expenditures from own sources; by the end of the decade grants exceeded own source expenditures. This change in relative importance was the result of two different trends. Federal capital grants for non-education purposes increased $2.3 billion from 1970 to 1980, whereas state and local capital spending from own sources decreased $7.0 billion.

Thus, from the beginning to the end of the decade, states and localities cut back non-education capital spending from their own sources by $3 for every $1 increase in Federal capital grants. A regression equation estimated on annual data over this period, in which capital spending from own sources was regressed on Federal capital grants, implies that states and localities cut back about

$2.40 for each increased Federal dollar. From either perspective, the real increase in Federal capital grants for non-education purposes was offset by a decline by states and localities from their own funds that was more than twice as large. This statistical association does not prove that the higher Federal grants for capital spending caused the decline. Causality may, in fact, have gone in the opposite direction, with state and local decreases causing Federal increases. Whatever the causality, the reasons for the decline in state and local spending must lie with decisions made by state and local governments.

Expectations that the Federal government would extensively finance state and local capital spending.--The rise in total Federal grants during the decade for capital and other purposes may have generated perverse expectations that made states and localities cut back. The trend during the decade was clearly toward increasing Federal aid, and this aid reached a peak in 1978 at 27% of total state and local expenditures. States and localities may have had good reason to extrapolate this trend and to believe that the Federal government would continue to budget for their capital and other needs. They may consequently have reduced their own funds for capital purposes in the expectation that the Federal government would continue to finance a growing portion of their capital infrastructure.

Real declines in tax-exempt borrowing for public purposes.--Capital spending is frequently financed by tax-exempt borrowing. Tax-exempt borrowing for traditional public purposes, 6/ i.e., for such things as roads or water and sewer systems, has declined in constant (1972) dollars from $18.8 billion in 1976 to $13.4 billion in 1981, as shown in Table 5. However, the high interest rates -- or the increasing spread between tax-exempt and taxable rates (Table 6) -- of recent years cannot be the cause of the decline in state and local borrowing or own source capital spending that began many years earlier.

[INSERT TABLES 5 AND 6]

Tax-exempt interest rates did not begin climbing to the very high rates of recent years until 1980. In 1979, Aaa municipal bonds paid on the average 5.9%; in 1980, 7.8%; and in 1981, 10.4%. The decline in real own source capital spending began much earlier, in the late 1960's, when it declined from $29.8 billion in constant (1972) dollars in 1968 to $25.4 billion in 1970. The real decline in tax-exempt borrowing for public purposes, such as for capital infrastructure, also began before the current high interest rates. Surprisingly, when the interest rates rose sharply to 10.4% in 1981, borrowing for public purposes increased 10% in real terms.

Table 5.--NEW TAX-EXEMPT BONDS BY PURPOSE

	By Purpose			In Constant 1972 Dollars 1/			Aaa Municipal Bond
	Total	Public 2/	Private	Total	Public 2/	Private	Yields
1976...	$35.0	$26.7	$8.3	$24.7	$18.8	$5.9	5.66%
1977 3/	40.5	27.3	13.2	27.0	18.2	8.8	5.20
1978 3/	41.5	25.6	15.9	24.7	15.2	9.5	5.52
1979 3/	48.2	23.2	25.0	25.3	12.2	13.2	5.92
1980...	54.5	25.9	28.6	25.7	12.2	13.5	7.85
1981...	54.6	30.0	24.6	24.4	13.4	11.0	10.43

NOTE: Data by purpose are not available for earlier years.

1/ Deflated by the State and local capital spending deflator.

2/ Includes some private purpose tax-exempt debt and some advance refunding that could not be identified or classified.

3/ Excludes from the total and public purpose bonds advance refunding of $6.4 billion in 1977, $7.6 billion in 1978, and $0.2 billion in 1979. Advance refunding for other years is not significant.

Source: Department of the Treasury, Office of Tax Analysis.

Table 6.--COMPARISON OF TAX-EXEMPT AND CORPORATE INTEREST RATES
(percent)

	Moody's Aaa Bonds		Difference	
Period	Tax Exempt (1)	Corporate (2)	Total	Tax-Exempt-Taxable Yield Ratio
Five-year Averages				
1955-1959........	2.81%	3.70%	0.89	.76
1960-1964........	3.14	4.35	1.21	.72
1965-1969........	4.04	5.67	1.63	.71
1970-1974........	5.45	7.73	2.28	.71
1975-1979........	5.74	8.73	2.99	.66
Annual				
1970.............	6.12	8.04	1.92	.76
1975.............	6.42	8.83	2.41	.73
1980.............	7.85	11.94	4.09	.66
1981.............	10.43	14.17	3.74	.74

Source: Board of Governors of the Federal Reserve System, Banking and Monetary Statistics, 1941-1970, Annual Statistical Digest (various years), and Federal Reserve Bulletin (various years).

Rigid interest rate ceilings for state and local borrowing are also unlikely to have caused the decline in tax-exempt borrowing for public purposes. The Bond Buyer 7/ reported that only 17 states have ceilings on state general obligation bonds, and, for other bonds, half the states have raised the ceilings in both 1980 and 1981.

The decline in capital spending and tax-exempt borrowing has been influenced by lower levels of bond approvals at the polls. As Table 7 shows, the approval rates for the 1970's have been, on the average, significantly below the rates for the late 1950's and the 1960's.

[INSERT TABLE 7]

Higher gasoline prices.--Another factor in reducing capital spending was the increase in gasoline prices. Taxes on gasoline finance highway construction. Since most gasoline taxes are levied on gallons used rather than as a percent of the price, real tax revenues for highway construction declined as Americans cut back on the use of gasoline in response to high prices.

Relative growth of social spending.--Much of the rationale for restraining government in the 1970's focused on the social programs, their erosion of individual initiative, and the negative effect of high taxes on productivity. But when severe restraint was applied, capital programs were cut rather than

Table 7.--VOTER APPROVAL OF BOND ISSUES
(dollar amounts in billions)

	Bond Issues		
	Submitted to Voters	Approved	Percent Approved
Average for five-year periods			
1955-1959..............	$4.4	$3.3	75%
1960-1964..............	6.0	4.4	73
1965-1969..............	10.6	6.5	64
1970-1974..............	11.0	6.1	55
1975-1979..............	10.2	5.8	58

Source: Bond Buyer, "The Bond Buyer's 1980 Municipal Finance Statistics, Volume 19/1981" p. 28.

social programs. Human services programs grew as a percent of state and local expenditures from about 60% in the late 1960's to 65% in the late 1970's, while those for physical and economic development fell from 23% to 16%. Water and sewer systems, bridge maintenance, mass transit programs, and roads and highways were considered less important than pensions, health, welfare, or education.

Public attitudes toward government.--Public attitudes toward government have also affected capital spending. During the 1960's, with public revenues from steady economic growth, the charisma of John F. Kennedy and Martin Luther King, Jr., and the initial enthusiasm for the War on Poverty, the nation felt that government could solve problems. Although most of the new programs were for human services, capital expenditures also grew.

The war in Vietnam, Watergate, and the uncertainties associated with high inflation and two recessions (1970 and 1974-75) may have changed public attitudes. Many came to believe that government was the problem and their tax dollars were being wasted. The changes affected states and localities first, with enactment of many severe self-imposed tax and spending limitations, especially Proposition 13 in California in 1978. The changed attitudes also led to a declining rate of approval of bond issues in the 1970's. Federal programs have also been affected.

Restraining government in general is now widely accepted as the best way to solve many domestic problems. This restraint has affected state and local own source spending on the capital infrastructure.

Summary.--Explaining precisely the reasons for the decline in budgeting for capital spending by states and localities in the 1970's is at best quite difficult. Declines for education explain less than half of it. Interest rates were low for most of the decade. Federal grants for non-education capital spending increased significantly while state and local spending for this purpose was decreasing even faster.

The explanation seems to be that voters simply resisted bond issues at the polls, increases in taxes on gasoline, and growth of government in general. The universal use of capital budgeting by states and localities seemed, for the most part, irrelevant. It did not make capital spending a high priority.

Budgeting for Capital Infrastructure: Which Level of Government?

There is no simple way to determine which level of government should finance spending for the infrastructure. This is necessarily and properly worked out through the political process.

There is most likely a need for increased spending in this area. Unfortunately, when public spending is needed, there seems to be a natural tendency to look to the Federal government to provide it. Although in some cases this is certainly right, for capital spending for the 1980's it may not be. Expansion of Federal aid for capital purposes in the 1970's may have encouraged states and localities to cut back. More growth by the Federal government in the 1980's may simply continue this trend, with no net increases in capital spending or -- if the 1970's are a guide -- with sizeable net decreases.

If the goal is to increase the priority for capital spending among states and localities, rapid growth of Federal aid may not help achieve it.

Capital budgeting seems, somewhat surprisingly, to have had little or no influence in making capital spending a higher or lower priority. The Federal government does not have a capital budget, and its capital spending was a high priority. States and localities use capital budgets almost universally, and, despite this, their priority for capital spending declined dramatically.

NOTES

The author is a fiscal economist at the Office of Management and Budget (OMB). The views expressed in this article are those of the author and do not necessarily represent those of OMB. The author wishes to thank David Levin, Department of Commerce (Bureau of Economic Analysis), Tom Neubig, Department of the Treasury (Office of Tax Analysis), and numerous colleagues in OMB for their help. Any errors in fact or analysis are the responsibility of the author. Detail in tables may not add to totals due to rounding.

1/ For example, see Pat Choate and Susan Walter, America in Ruins: Beyond the Public Works Pork Barrel (1981), Council of State Planning Agencies, Washington, D.C., and "State and Local Government in Trouble," in Business Week No. 2711 (October 26, 1981), p. 135-181.

2/ A capital budget shows the financing for investment in capital assets separately from the financing for current expenditures. States and localities generally show this financing separately, while the Federal Government does not. The Federal Government does, however, regularly collect information on investment-type spending in Special Analysis D: "Investment, Operating, and Other Budget Outlays," in Special Analyses, Budget of the United States Government. The Office of Management and

Budget has recently revised and compiled an historical series of data on investment-type spending by the Federal Government.

3/ The next three paragraphs are based on Nancy Humphrey, "Assessing Infrastructure Needs," (December 1980), The Urban Institute, Washington, D.C.

4/ The reader should be aware that maintenance of capital is not a capital expenditure. It is a current cost. There is necessarily an arbitrary distinction. Resurfacing a road with 3/8" of macadam may be called maintenance, but adding 5/8" may be capital construction. If a community decided to spend more on maintenance and reduce rebuilding, the data could show a decline in capital expenditures. There is little evidence to suggest, however, that increases in maintenance are large or account for reductions in capital investment.

5/ For a persuasive argument for this, see Edward M. Gramlich, "State and Local Budgets the Day After it Rained: Why is the Surplus So High?," Brookings Papers on Economic Activity (1978:1), Washington, D.C.

6/ Public purpose bonds are those paid off by taxes or by user fees from capital projects such as water and sewer systems. These are the traditional areas of borrowing by State and local governments, and include almost all general obligation bonds and many revenue bonds. Bonds for private purposes are those paid off by individuals or businesses, and are usually neither the liability of States and localities nor for their central responsibilities. Private purpose bonds can be to provide lower interest rates for middle income families to buy single-family homes, for industrial development, for college students to obtain loans, or for other purposes. They are almost exclusively revenue bonds.

[7] John McCorry, "25 States Change Caps on Debt Interest in 1981," The Bond Buyer Vol. 259 No. 26288, (January 14, 1982) pg. 1,14.

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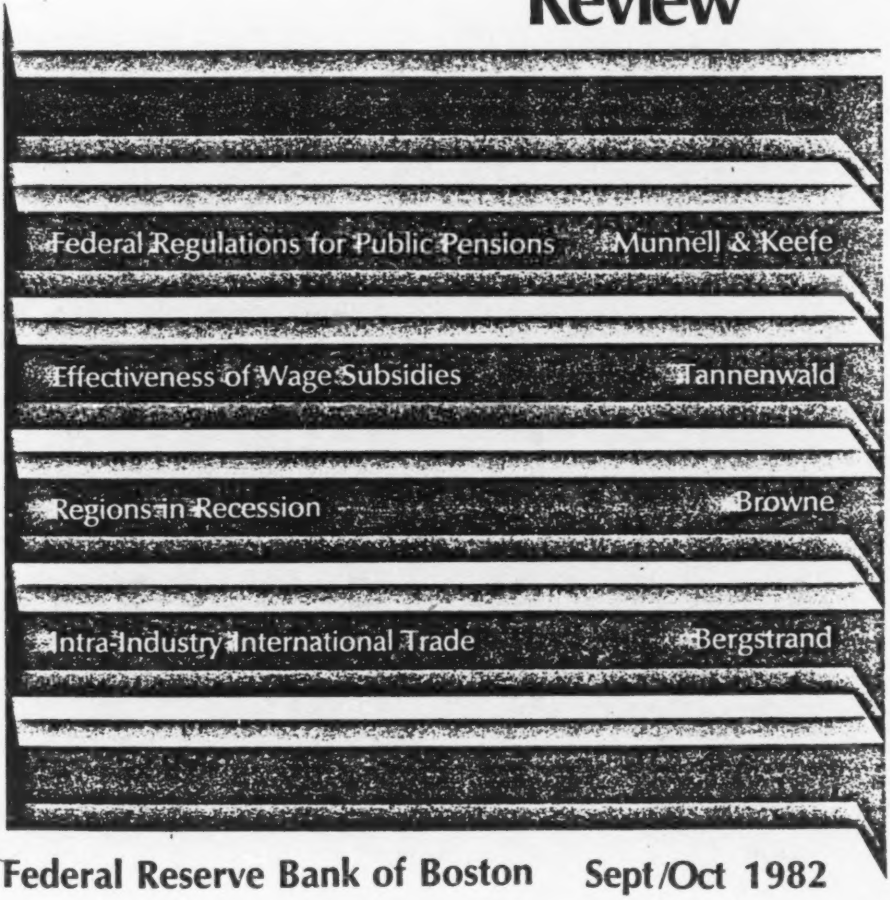

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Are Wage and Training Subsidies Cost-Effective? — Some Evidence from the New Jobs Tax Credit

BY ROBERT TANNENWALD*

DURING the last 10 years, wage and training subsidies have become increasingly popular throughout the industrialized Western world. In the United States, the federal government has used them to alleviate both structural and cyclical unemployment, that is, to create jobs for workers who have trouble finding stable employment under normal economic conditions and for all categories of workers during periods of economic slack. Currently, it uses income tax credits to subsidize the wages of the handicapped; welfare recipients; and economically disadvantaged youth, ex-convicts, and Vietnam-war veterans. The Reagan administration has advocated the continuation of this subsidy, known as the Targeted Jobs Tax Credit (TJTC), through 1985.

A number of other federal wage and training subsidies have been proposed. For example, the Administration has advocated the use of tax credits similar to the TJTC to induce employers to locate in selected economically depressed "enterprise zones" and hire local residents.[1] Senator Lloyd Bentsen has proposed tax incentives to encourage the provision of training in skills likely to be in short supply over the next several decades.[2] Robert Reich, professor of public policy at Harvard University, has suggested the issuance of vouchers to low-skilled or unemployed workers which they could cash in for on-the-job training.[3]

While wage subsidies have clearly intrigued policymakers, public service employment programs (PSE), the centerpiece of federal job creation policy during the 1970s, have fallen into disrepute. The Reagan Administration wants to eliminate all of them by fiscal year 1983.[4] Their elimination would reduce total appropriations for federal training and employment programs by 70 percent in only two years.[5]

A number of arguments have been used to justify the termination of PSE. First, it has created superfluous, "dead end" jobs that have bred poor work habits and provided little useful training. To some, it has been little more than a thinly disguised welfare program. Second, it has exacerbated inflation by stimulating aggregate demand and paying sponsored employees excessively generous wages. Third, its net impact on employment has been minimal, despite the hundreds of thousands of people it has put on public payrolls. The availability of PSE has induced local governments to cut back their own outlays for hiring. Even in the absence of such substitution, sponsored employees would eventually have found jobs anyway. Consequently, each new job added to the economy through PSE has cost the government almost two and one-half times as much as the average annual wage of program participants.[6]

By contrast wage subsidies create jobs in the private sector, where the discipline of the marketplace leads employers to motivate their workers and train them in useful skills. Recipients of subsidy-induced jobs contribute to the production of goods and services that are truly in demand. Furthermore, wage subsidies can be targeted in ways that limit the value of windfalls they confer. Eligibility criteria can be established which reduce the extent to which they subsidize the creation of jobs that would have been created anyway. Finally, they minimize surplus subsidization by covering only a fraction of wages paid to each qualifying employee. Thus, theoretically they create jobs more cost-effectively than PSE.

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[1] U.S. Office of Management and Budget, *Budget of the United States Government Fiscal Year 1983*, ch. 4, p. 14.

[2] Skilled Labor Training Act, S.2476, 97 Cong. 2 Sess., 1982.

[3] Robert B. Reich, "Industrial Policy," *The New Republic*, March 31, 1982, p. 29.

[4] *Budget*, ch. 5, p. 104.

[5] Ibid, ch. 5, p. 107.

[6] According to the Congressional Budget Office (CBO), in 1978 the average annual federal cost of a full-time employee of CETA-sponsored public service employment programs was $8,600, which covers wages as well as overhead and fringe benefits. CBO estimated that each net job created by these programs cost the government between $10,000 and $20,000 a year. See Alice M. Rivlin, Director, Congressional Budget Office, Letter to the Honorable Floyd Haskell, Chairman, Subcommittee on Administration of the Internal Revenue Code, Committee on Finance, United States Senate. 5 September 1978.

It is not clear, however, that wage subsidies are more cost-effective than PSE in practice. The federal government has not studied the economic effects of wage subsidies as thoroughly as those of PSE. It should carefully evaluate their cost-effectiveness before using them more intensively.

This article estimates the cost per net job created of the New Jobs Tax Credit (NJTC), the most costly, ambitious federal wage subsidy ever undertaken. It relies on data gathered in a previously unpublished study that is the most comprehensive empirical evaluation of the NJTC to date. Section I discusses the principal provisions of the NJTC, emphasizing why its sponsors believed it would be such a cost-effective program. Section II presents both the methodology and results of the analysis. The NJTC was found to be at best no more cost-effective than the CETA programs, casting doubt on the wisdom of enlarging the role of wage and training subsidies in federal job creation policy. Section III explores some reasons why the NJTC was less cost-effective than its sponsors had envisioned. Section IV summarizes the study and draws further policy conclusions.

I. The Basic Provisions of the New Jobs Tax Credit and Their Rationale

The New Jobs Tax Credit was a *general, incremental* wage subsidy available in 1977 and 1978. It was general in that it subsidized employment without regard to the personal characteristics or circumstances of employees. It was incremental in that, in order to earn it, a firm had to increase the size of its work force above a predefined level.

The NJTC was general in scope because it was designed to reduce barriers to employment that are unrelated to the personal characteristics of the unemployed. Many of the NJTC's strongest supporters subscribed to the fundamental "supply side" tenet that public policy has stymied economic growth. They argued that minimum wage laws and payroll taxes were keeping real wages at artificially high levels, thereby depressing labor demand. They further maintained that the progressive rate structure of the federal income tax and unemployment and welfare benefits had also propped up wages by discouraging work effort and therefore depressing labor supply. They concluded that general wage subsidies could raise the level of employment by counteracting these artificial disincentives.

Congress made the NJTC incremental in order to reduce the extent to which it subsidized employment that would have occurred anyway. It was disturbed by evidence that sponsors of CETA programs and recipients of antirecessional fiscal assistance had engaged extensively in "fiscal substitution," the substitution of federal funds for municipal funds earmarked for jobs. It wanted to insure that jobs tax credits would subsidize net growth in employment to the greatest extent possible, not merely create one job at the expense of another.

In choosing a measure of growth, Congress sought a statistic that, though accurate, was simple and readily available so that taxpayers could take advantage of the credit with a minimum of additional paperwork and the Internal Revenue Service could easily verify the legitimacy of taxpayers' claims. Ultimately, the lawmakers chose growth in a firm's Federal Unemployment Tax base ("FUTA Wages"), a statistic that employers are required to report anyway. In 1977, this base consisted of the first $4,200 of each employee's annual wages.[7]

Having chosen to enact a marginal subsidy, Congress also had to select a threshold of eligibility — the minimum rate of growth in FUTA wages a firm had to achieve in order to earn credits. The Committee wanted to focus the subsidy on the marginal employment decisions of as many firms as possible, while minimizing subsidization of growth that would have taken place even in the credit's absence. To this end, the threshold was set at 2 percent, i.e., a firm could earn tax credits only by increasing its total FUTA wages by more than 2 percent above their level in the previous year. All growth above 2 percent constituted the base on which the credit was calculated.

Without official explanation, Congress decided to grant private employers tax credits equal to one-half of this base. Thus, in any given year a firm earned tax credits equal to one-half its annual increase in FUTA wages. For example, suppose a firm hired 10 employees in 1977 and paid each an annual salary of $10,000. It then hired 10 additional employees in 1978, continuing to pay all employees a salary of $10,000. Its total FUTA wages in 1978 would have equalled 20 x $4,200 or $84,000. Its NJTC would have equalled

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[7] In several states, FUTA wages were equal to the first $6,000 of each employee's annual wages. However, for the purposes of the credit they were assumed to be $4,200.

$0.5\ [\$84{,}000 - (1.02)(\$42{,}000)] = \$20{,}580.$[8]

Under this formula, while an employer would be permitted to claim tax credits equal to a portion of wages paid to incremental workers, he would also be able to deduct all such wages from his taxable income as an ordinary business expense. In order to eliminate inequities and distortions resulting from this "double dipping," Congress required employers to reduce their ordinary business expense deductions by the amount of tax credits claimed. In effect, this requirement stipulated that the value of claimed credits had to be added back into taxable income and taxed at the appropriate marginal rate. Thus, in the above example, if the employer's marginal rate were 40 percent, his tax savings would be $20,580 - 0.4($20,580), or $12,348.

In effect, for a corporation taxed at a marginal rate of 48 percent, the value of the NJTC per fully eligible employee was $2,100 − 0.48($2,100), or $1,092, only 10 percent of estimated average annual earnings in 1978.[9] By contrast, as pointed out above, CETA programs generally subsidized 100 percent of the wages paid to sponsored employees, even if the sponsoring municipal government or nonprofit organization would have hired some of them for only a 50 percent subsidy. Thus, when the NJTC did succeed in creating a new job, it did so with less surplus subsidization than programs which put workers directly on public payrolls. This characteristic of the NJTC, along with its alleged ability to concentrate rewards on marginal employment decisions, convinced supporters of its superior budgetary cost-effectiveness.

However, these two characteristics did not necessarily insure that the NJTC was more cost-effective than other job creation programs. In 1977 and 1978, many employers earned windfall tax relief because they had planned to expand their work forces by more than 2 percent even without the credit. Moreover, there are no a priori reasons to believe that the credit stimulated the creation of many jobs. Most analysts have assumed that private hiring was about as sensitive to the credit as equivalent percentage reductions in the average wage rate. The validity of this assumption is not at all clear, given that the credit was complex and temporary and its value to any given employer depended on his tax liability. No one could predict the strength of the NJTC's impact on employment at the time of its enactment. Only a retrospective analysis of firms' actual responses to the credit can provide valid estimates of its budgetary cost-effectiveness.

II. The Budgetary Cost-Effectiveness of the New Jobs Tax Credit

In order to estimate the NJTC's actual cost per net job created, data were gathered from 309 structured telephone interviews of private firms located in the state of Wisconsin during the latter half of 1979. (Interviews were designed by the author and conducted by Becker Research, Inc., Boston, Massachusetts.) The sample was drawn from Wisconsin because the Wisconsin Department of Industry, Labor, and Human Relations provided valuable supplementary data, including each firm's total FUTA wages. Consequently, it was possible to calculate the value of jobs tax credits earned by each firm independent of voluntarily disclosed information. (A more detailed explanation of sampling procedure and an analysis of the sample's biases is provided in the Appendix. See Box for an evaluation of the other major survey of the NJTC.)

In order to determine the number of jobs in each firm whose creation was induced by the credit, the following questions were posed to the chief financial officer or chief executive officer:

> In (year) did the New Jobs Tax Credit motivate your business to hire additional employees whom you would otherwise not have hired?

This question was asked for both 1977 and 1978. If the respondent answered affirmatively, he was then asked:

> Of these additional employees whose hiring in (year) was decisively influenced by the New Jobs Tax Credit, how many were full-time? part-time?

The wording of the questions was designed to elicit a positive response only if the NJTC had been the decisive factor in the creation of a job, i.e., without the NJTC the job would not have been created. Unless this condition is met, claimed tax credits are merely windfalls exerting no effect on levels of employment.

Each respondent was also asked to divulge the amount of tax credits he claimed in each year. In order

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[8] This formula was subject to certain limitations, all of which are described in the Appendix.

[9] In 1978, the average weekly wages of production, nonsupervisory workers in all U.S. nonagricultural establishments was $203.70. See U.S. Bureau of Labor Statistics, *Employment and Earnings, United States*, 1909–1978, p. 3. This equals 52 × $203.70, or $10,592.40 per year. $1,092/$10,592.40 equals .103.

The Census-Labor New Jobs Tax Credit Survey

The largest previous survey of the New Jobs Tax Credit's economic effects was conducted in February 1978 by the Bureau of the Census and the Department of Labor. This study gave some policymakers hope that the NJTC would in fact exert a sizable, widespread effect on employment. The survey revealed that of all respondents who knew about the credit and qualified for it, 24 percent indicated that they had "made a conscious effort to increase employment" in response to it.[1] Since only one-third of the respondents were aware of its existence, some analysts concluded that as awareness spread the program's impact would strengthen. They further hoped that in 1978 a larger percentage of knowledgeable qualifiers would respond to the credit because they would have more time to adjust their hiring schedules.

However, according to the Wisconsin survey 18 months later fewer than 10 percent of knowledgeable qualifying respondents reported that their work force would have been smaller in the absence of the NJTC. Several factors account for the disparity in results. First, many firms enjoying substantial benefits from the program without modifying their employment levels became aware of it only after their accountants or in-house financial specialists informed them of their windfall tax savings during tax filing season. Most businesses file returns 6 to 12 months after the termination of the taxable year. Thus, by February 1978 few could have learned of the credit passively as a consequence of filing their tax returns. Those who had learned of the credit before filing were more likely to have explored actively the possibility that they could enhance their after-tax profits by accelerating growth in response to the subsidy. By the latter half of 1979, however, passive benefactors were much more likely to have learned about the program.

Second, the wording of the Census-Labor questionnaire is laden with connotations that prompt a positive response. It asks respondents, "Was there a conscious effort made to increase employment in response to the New Jobs Tax Credit?" The term "conscious effort" implies that it was a firm's duty to have responded. Furthermore, since the survey was conducted by the federal government, many respondents probably believed that its results would be used to evaluate the program. Consequently, they might have reported an employment response to convince the federal government that the program should be continued.

Finally, "nonresponse bias," caused by systematic differences between respondents and nonrespondents, might have affected the results of the Census-Labor survey more severely than those of the Wisconsin survey. This type of bias is frequently more severe in written than telephone surveys because the act of completing and mailing a questionnaire is perceived to be more time consuming than providing answers over the telephone. Firms for which the NJTC was irrelevant and uninteresting might have been less willing to answer the Census-Labor questionnaire, which was written, than the Wisconsin questionnaire, which was conducted by telephone. Consequently, firms increasing their employment in response to the credit might have been disproportionately represented in the Census-Labor study's sample of respondents.

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[1] U.S. Bureau of the Census, *New Jobs Tax Credit Survey*, April 1978. (Processed.)

to calculate his resulting tax savings, this amount had to be multiplied by one minus his marginal tax rate, since, as explained above, an employer was required to reduce his income tax deduction for wages and salaries by the amount of credit claimed. Marginal income tax rates were determined on the basis of reported organizational form, taxable income, and tax rates applicable in 1977 and 1978. This rate began at 22 percent for corporations with taxable incomes between $25,001 and $50,000 and reached 48 percent for corporations whose taxable incomes were higher.

The marginal tax rate applicable to the income of businesses organized as partnerships, subchapter S corporations, and sole proprietorships depends on the taxable income of their owners. Since this information was not available, marginal tax rates of these firms were assumed to be 40 percent, the approximate average marginal rate at which business income (profits, dividends, rents, and royalties) was taxed in 1978 according to the U.S. Department of the Treasury.[10] This value was also assumed for firms that did not know or that refused to divulge their organizational form.

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[10] Telephone interview with Howard K. Nester, Office of Tax Analysis, U.S. Department of the Treasury, October 10, 1979.

Table 1
Budgetary Cost-Effectiveness of New Jobs Tax Credit under Varying Assumptions
($ of foregone revenue per net job created)

	Tax Revenue Loss Estimated from Reported NJTC Claimed				
	(1)	(2)		(3)	
	No Adjustment for Displacement and/or Multiplier Effects	Adjustment for Displacement Effects		Adjustment for Multiplier and Displacement Effects	
Year		10%*	30%*	10%*	30%*
(1) 1978	18,000	20,700	25,700	15,400	18,600
(2) 1977	13,000	14,800	19,100	12,100	14,500
(3) 1977 & 1978 (combined)	16,400	18,200	22,800	14,100	17,100
	Tax Revenue Loss Estimated from FUTA Wage Data**				
(4) 1978	23,900	26,500	34,100	18,300	23,000

* Percentage of created jobs filled by workers formerly employed elsewhere and not replaced.

** The value of the New Jobs Tax Credit to any given firm was subject to several statutory limitations, one of which was based on growth in total wages rather than growth in FUTA wages. Since total wage data were supplied by the State of Wisconsin, estimates take into account this and all other such limitations.

In each year, the data reflect the fact that in Wisconsin FUTA wages have equalled the first $6,000 of annual wages since 1978. As pointed out in the text, for the purposes of the NJTC they equalled the first $4,200 of annual wages. FUTA wages according to the latter formula had to be estimated from the Wisconsin data according to a complex procedure, described in detail in the Appendix. Estimates of cost per job created were made for 1978 only because the procedure relied on data from other sources that were not readily available to the author for years which would have permitted an estimate for 1977.

Source: Author's estimates.

The amount of federal income tax revenue foregone per job created was estimated by dividing total reported tax savings by the sum of all jobs whose creation was attributable to the credit, both full- and part-time. It was assumed that firms unwilling or unable to disclose the value of their claimed tax credits (about one-third of the sample) claimed the same NJTC as the average credit claimed by reporting firms: $13,265 in 1978 and $11,727 in 1977.

In order to estimate the total number of jobs attributable to the credit, the sum of reportedly induced jobs was adjusted upward to reflect demand-side multiplier effects. These effects resulted from increases in income of employees filling newly created positions and firms enjoying windfall tax relief. The spending of this income led to more hiring, which in turn generated more income, spending, and jobs, etc. The procedure used to estimate these effects is discussed in the Appendix. They increased the total number of jobs attributable to the credit by approximately 20 percent.

An accurate estimate of the impact of the NJTC on employment should also take into account its "displacement" effects. Firms qualifying for the credit enjoyed a competitive advantage over those that did not. Consequently, some of the jobs reportedly created by the credit merely substituted for positions abolished by ineligible firms. To some extent, employment was reallocated, not increased. Arbitrarily, it was assumed that 10 percent of all jobs reportedly created by the credit merely displaced other positions and therefore did not constitute net additions to aggregate employment. Estimates of budgetary cost-effectiveness were also made under the assumption of a 30 percent displacement rate.

Estimates of the budgetary cost-effectiveness of the NJTC reflecting these adjustments to various degrees are presented in Table 1. As indicated in row 3, column 3, with adjustments for both displacement and multiplier effects, estimated cost per net job created ranges between $14,100 and $17,100. By comparison, the Congressional Budget Office estimates that in fiscal year 1979 CETA-sponsored public service employment programs created employment at a cost of between $10,000 and $20,000 per job, depending on the degree of assumed fiscal substitution.[11]

The NJTC estimates are overly optimistic for several reasons. First, follow-up interviews with respondents who reportedly increased hiring in response to the credit revealed that many did so merely by substituting part-time for full-time employees in incremental employment. For example, in one case, an expanding construction firm, after having completed one project, laid off most of its crew and hired new workers for a subsequent project. In the absence of the NJTC the firm would have kept the same crew for both projects. The number of hours worked by the firm was not changed by the credit. Rather, 30 part-time positions were created from 15 full-time ones. If such acceleration of turnover is not considered job creation, then estimates of the NJTC's cost per net job created range from $17,200 to $20,600, depending on the assumed displacement rate.

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[11] Alice M. Rivlin, Director, Congressional Budget Office, Letter to the Honorable Floyd Haskell, Chairman, Subcommittee on Administration of the Internal Revenue Code, Committee on Finance, United States Senate, 5 September 1978. To obtain this estimate, CBO divided the costs of CETA public service employment programs by the number of program participants, adjusted for assumed multiplier effects and fiscal substitution. While both costs and number of participants were known quantities, the values used in the NJTC estimates were obtained from a survey. If CBO had used a similar survey technique, asking CETA employers how much of their hiring was "decisively influenced" by CETA programs its estimate of CETA's cost per net job created might have been different. Such survey-based estimates of CETA's budgetary cost-effectiveness have not been undertaken.

Second, the "voluntary disclosure" approach to measuring tax benefits fails to capture credits not claimed in the year they were earned because of a lack of sufficient tax liability. Many taxpayers claimed credits earned in 1977 or 1978 in later years only after they had incurred tax liabilities for the credits to offset. This process of "carrying over" credits is still taking place.

One way to capture these carryovers is to estimate earned tax credits with the firm-specific FUTA wage data provided by the Wisconsin state government. Depending on one's assumption concerning displacement, estimates of cost per job based on this measurement range from $19,300 to $23,000. (See Table 1, row 4.) This methodology overestimates cost per job since some firms will never claim all the credits they earned and tax benefits claimed in the future cost the government less than those claimed in the present.

Another source of downward bias in the estimates of the credit's cost per job is the underrepresentation of large firms in the sample. (Reasons for this underrepresentation are discussed in the Appendix.) Since credits were awarded on the basis of percentage growth, large firms had the potential to earn more tax relief than small ones. However, a $100,000 absolute ceiling on the value of credits earned by any particular firm limited this potential. Nevertheless, figures released by the U.S. Department of the Treasury indicate that the average amount of NJTC claimed in 1977 by corporations with assets worth $250 million or more was $66,600, compared with $9,400 for all corporations. Of these large corporations 43.4 percent claimed the NJTC compared to only 9.8 percent of all corporate filers.[12] Had the nation's largest corporations been more adequately represented in the survey sample, the estimate of the NJTC's cost per job would undoubtedly have been higher.

It should also be pointed out that 11.5 percent of the jobs reportedly created in response to the NJTC were part-time positions, while CBO's estimates of the budgetary cost-effectiveness of public service employment assume that all created jobs are full time. If jobs were measured in full-time equivalents, the estimates of the NJTC's cost per job would be higher still.

Finally, the NJTC estimates assume that all additional jobs created through multiplier effects do not generate tax benefits. In fact, some of these jobs probably were created by firms that were eligible for the credit. Assuming away this possibility intensifies the downward bias of tax benefit estimates and therefore cost to the government per job created.

III. Why the New Jobs Tax Credit Was Not a More Cost-Effective Creator of Jobs

The New Jobs Tax Credit was much less cost-effective than its proponents had forecast because they seriously overestimated its ability to create jobs. As alluded to above, many of them assumed that the demand for labor would be about as sensitive to the credit in the short run as a similar percentage reduction in the average wage rate. According to the average of all estimates, each 10 percent reduction in wages increases the demand for labor by about 2 percent.[13] Based on this assumption, one team of economists concluded that the NJTC could create as many as 3.7 million jobs within four quarters of its inception at a cost as low as $2,300 per job.[14] However, the results of the Wisconsin survey imply that a 10 percent reduction in after-tax wages affected by the NJTC increased employment by only 0.4 percent. (See Appendix for derivation of this estimate.)

Why did the impact of the New Jobs Tax Credit on employment fail to match the expectations of its supporters? An open-ended question probing this issue was addressed to those firms responding to the Wisconsin survey that knew of the credit, qualified for it, but failed to alter their employment in response to it. The issue was explored further in a series of 25 unstructured interviews with chief financial officers of New England-based companies conducted by the author in late 1978 and early 1979.

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[12] U.S. Department of the Treasury, "Testimony of John E. Chapoton, Assistant Secretary for Tax Policy, U.S. Department of the Treasury," before the Senate Finance Subcommittee on Economic Growth, Employment and Revenue Sharing, April 3, 1981, p. 4. (Mimeographed.)

[13] In economics jargon, the average estimate of the wage elasticity of the demand for labor with respect to the wage rate is 0.2. For a survey of studies of this elasticity, see Daniel S. Hamermesh, "Econometric Studies of Labor Demand and Their Application to Policy Analysis," *Journal of Human Resources*, vol. 11 (Fall 1976), pp. 507-525.

[14] John Bishop and Robert Lerman, "Wage Subsidies for Income Maintenance and Job Creation," in Robert Taggart, ed., *Job Creation: What Works?* Salt Lake City, Utah: Olympus Publishing Co., 1978, pp. 62–63.

Responses by both sets of interviewees stressed the importance of product demand in determining levels of employment. More than half of the Wisconsin respondents attributed their unwillingness to increase employment in response to the credit due to the fact that the strength of demand for their product did not warrant it. (See Table 2.) The overriding importance of this factor was indicated in such comments as: "Orders determine levels of hiring, not tax gimmicks!;" "Volume of business did not warrant additional hiring," and "Why should I (expand my workforce)? Sales did not increase."

Similarly, most of the New England-based interviewees were extremely reluctant to increase employment in response to the credit without confidence that the output produced by additional workers could be sold at a profit. They pointed out that, to attract additional customers, they would have to advertise more aggressively or pass through some of their tax savings from the credit in the form of lower prices. If these tactics failed, they would be burdened with excess inventories that could be worked off only at a loss. This possibility effectively inhibited their response.

The high perceived cost of evaluating the credit also diluted its impact. Many Wisconsin and New England interviewees viewed it as a very complex subsidy, a perception reinforced in some cases by experience with previously enacted employment tax credits such as the WIN tax credit and welfare tax credit. One personnel manager interviewed assumed that the paperwork and information requirements associated with all three of these tax credits were equally burdensome.

Perhaps the greatest impediment to the credit's effectiveness was organizational and perceptual in nature. Most of the interviewees stated that their firms made a sharp distinction between operations and finances. The former, which include matters of pricing, output, and employment, were considered totally separate from the latter, which include matters of federal income taxation. Financial matters were thought to require the attention of a specialist and were therefore handled by the firm's accountant and/or chief financial officer. As specialists, however, the accountants and financial officers did not always appreciate the ramifications of the NJTC for pricing and employment policy. Consequently, they did not always inform other officers about the details of the credit or, in some cases, failed to inform other officers of the credit at all until the end of the taxable year.

Several of the financial officers and chief executive officers interviewed were reluctant to urge other managers in their firm to take account of the NJTC for fear of infringing upon their jurisdictions. For example, one comptroller of a manufacturing firm tried to convince the plant manager, who enjoyed wide discretion in setting company hiring policy, to accelerate his hiring in response to the NJTC. The manager did not appreciate the economic arguments presented in favor of such a policy. Rather than challenge the manager's de facto authority (and given the shortage of qualified labor available), the comptroller decided to let the matter rest. Similarly, the treasurer of a management consulting firm was unwilling to instruct division supervisors to factor in the NJTC into their semi-annual forecasts of costs, prices, manpower needs, and revenues because he felt that the disruption of existing procedures that such a modification would entail was not worth the probable benefits.

The strict delineation between operational and financial matters evidently breaks down, however, in the case of the federal investment tax credit (ITC). Several interviewees stated that the ITC was formally factored into decisions concerning the purchase and rental of machinery and equipment. It was pointed out to them that on the average the rate of subsidization conferred by the NJTC was not significantly different from that conferred by the ITC (generally 10 percent). Why, then, they were asked, was the NJTC not factored into employment decisions? In response, some interviewees indicated that the stakes are larger in marginal investment decisions than in marginal employment decisions. One interviewee also attributed the disparity to the fact

Table 2
Reasons Given for Not Increasing Employment in Response to the New Jobs Tax Credit

	1978 (%)*	1977 (%)*
Only demand determines level of employment	58.6	53.5
Knowledge of the credit came too late	6.2	14.1
Credit was too small to make a difference	4.8	4.0
Credit was too complicated to take into account	9.7	9.1
Other	20.7	19.3

* Percentage of respondents to the Wisconsin survey aware of and qualifying for the New Jobs Tax Credit.
Source: Wisconsin survey, conducted by author.

that the ITC was permanent and had been in existence for a longer period of time.

Firms were also reluctant to take the NJTC into account because they were unsure of the rate of marginal subsidy it provided in any given time period. The taxable income of a firm is never certain until the completion of its taxable year. Yet, the credit is designed to subsidize the wages of employees hired during the taxable year. Thus a firm could base its hiring policy only on the probability, not the certainty, of receiving a subsidy.

A further element of uncertainty was introduced by the progressivity of the rate structures of the income taxes. Two marginal rates of corporate income tax were possible in 1977 and 1978: 22 percent and 48 percent. Individual income tax rates ranged from 14 percent to 70 percent. As pointed out above, the dollar value of the subsidy conferred by the credit was tied to the marginal tax rate of the firm. Yet, this marginal tax rate was never precisely determined until the end of the taxable year. Two of the interviewees indicated that uncertainty about the actual marginal tax rate of their firms inhibited them from factoring the NJTC into their employment decisions. This problem was also stressed by small business organizations in testimony before Congressional committees.

Limited possibilities for substitutability among factors of production also inhibited response to the credit. Some interviewees stated that a few additional employees would add little or nothing to the production of their firms unless they were supplied with machinery and equipment. The possibilities of substitution among workers with different skills were also seen to be severely limited. In one extreme case, an interviewee from a manufacturer indicated that in order to expand production at all, his firm would have to add an entire shift (some 50–75 people) and buy new trucks to transport the resulting increase in output. Under such conditions the NJTC subsidized an extremely small percentage of the total incremental costs of production and therefore provided little incentive to expand.

Many new, growing firms represented in the interviews failed to respond to the credit because they had not yet achieved their target level of employment. They were still in the process of installing equipment and recruiting, screening, and hiring workers in order to expand to a future level of production commensurate with either the capacity of their plant or the level of demand for their product. Adjustment costs, not a lack of demand or prohibitive factor prices, were impeding their growth. Consequently, these firms already knew that the hiring of each marginal employee was unambiguously profitable in the present. They did not need an employment tax credit to convince them of that. Projected dates for completing expansion were far into the future, well beyond the statutory termination date of the NJTC. In these cases, the NJTC influenced neither current nor future target levels of employment.

IV. Concluding Remarks

The NJTC failed to live up to the expectations of its architects because, compared to product demand, firms consider small changes in labor costs a minor determinant of employment. A number of other factors diluted the credit's impact, including its perceived complexity, the difficulty of ascertaining its value early in the taxable year, prohibitive adjustment costs accompanying rapid expansion, limited substitutability among factors of production, and a strict intrafirm delineation between operations and finances.

Some of these impediments would dampen the impact of any wage subsidy, others that of general incremental subsidies only. Among the former, the tendency of employers to regard operations and finances as distinct, unrelated functions is probably the most serious. To have a significant impact on employment, wage subsidies must provide management with enough incentive to modify those organizational biases and procedures which preclude consideration of financial factors in hiring decisions.

The Wisconsin study also highlights the problems of implementing wage subsidies through the tax system. The NJTC could not affect the behavior of a firm unless that firm had sufficient tax liability to benefit from it. Tax liability depends on profitability and availability of other tax benefits. The incidence of the credit was therefore somewhat capricious, depending in part on these two conditions as well as employment growth. Furthermore, profitability and eligibility for many deductions and credits are difficult to predict until well into the taxable year, after annual plans for hiring have already been set. This uncertainty further diluted the credit's impact on employment.

The demand-dependency of employment imposes less of a constraint on the effectiveness of wage subsidies targeted on specific categories of workers, such as the Targeted Job Tax Credit and recently proposed wage subsidies. Employers can earn such subsidies by substituting eligible for ineligible workers without expanding their payrolls. Furthermore, such subsidies confer smaller windfalls than general, incremental subsidies, which reward growth indiscriminately. The study does imply, however, that to the extent they are effective, targeted subsidies enhance the employment of some groups only at the expense of others. An expansion of the role of targeted subsidies would encourage such displacement at a time when unemployment is at its highest rate since the Great Depression.

Evidently, wage subsidies are not the miracle job creators that some economists had expected them to be. They may create jobs that provide more valuable training and produce output of greater social value than those created by PSE. Unlike PSE, they may improve the tradeoff between inflation and unemployment. However, they are not superior to PSE in terms of budgetary cost-effectiveness.

APPENDIX

A. Limitations on the Value of Earned New Jobs Tax Credits

The value of New Jobs Tax Credits earned by any firm in any given year was equal to the smallest of the following four variables:

$$\text{Formula 1} = 0.5(F_t - 1.02F_{t-1}) \qquad F_t > F_{t-1}$$
$$= 0 \qquad F_t \leq F_{t-1}$$

$$\text{Formula 2} = 0.5(W_t - 1.05W_{t-1}) \qquad W_t > W_{t-1}$$
$$= 0 \qquad W_t \leq W_{t-1}$$

$$\text{Formula 3} = 0.25F_t$$

$$\text{Formula 4} = \$100{,}000$$

where: F = total FUTA wages of the firm.
W = total payroll of the firm.
t = time period.

B. Sample Selection and Analysis of Nonresponse Bias

The sample of firms interviewed in the Wisconsin study was drawn from 20 3-digit SIC industries, which in turn were drawn from the mining, construction, manufacturing, wholesale, retail, and service sectors. The choice of industries was designed to produce a sample of interviewees whose characteristics, particularly those posited to be determinants of sensitivity to the NJTC, would exhibit substantial independent variation. Such stratification was desirable because these determinants are explored in another study using the survey data not reported in this article.[1]

Only firms from the State of Wisconsin were included in the sample because the Wisconsin Department of Industry, Labor, and Human Relations was the only state agency willing to provide firm-specific data needed for sample selection and the calculation of earned jobs tax credits. The data, which came from the agency's unemployment tax data bank (ES202 file), included FUTA wages, total wages, number of jobs, and the SIC code for over 100,000 establishments in the state.

A random subsample of 1,000 firms, stratified by size, was drawn from the 20 industries. Large-size categories were sampled more heavily in order to insure their adequate representation. However, because the data were provided on an establishment basis, such stratification was not possible without the prior removal of all multiestablishment firms. Establishments whose headquarters were located outside of Wisconsin clearly fell into this category. Other multiestablishment firms were identified through the use of directories and consultations with trade associations. A primary subsample of 300 firms was then drawn and organized into industry-size subgroups. Each firm in the primary sample was assigned two "alternates," which had the same industry and size characteristics. The remaining 100 firms served as a reserve pool of potential interviewees to be used if the other 900 firms failed to provide 300 completed interviews.

Each firm in the primary sample was approached for a telephone interview. If a firm could not be reached, refused to participate, or was found to be a multistate firm, an alternate was contacted. This procedure was repeated until 300 interviews had been completed.

Nine extra interviews were inadvertently undertaken, creating a total sample of 309. These represented 56.3 percent of all firms contacted. The interviews were conducted by Becker Research, Inc. of Boston, Massachusetts.

Breakdowns by industrial division and by size for both interviewees and firms that refused interviews are presented in Tables A-1 and A-2. In both samples the majority of firms were manufacturers and firms with more than 100 employees were underrepresented. This dearth of large firms was the consequence of the elimination of multistate firms from the sample. In comparing the two samples, one finds manufacturers and firms in the professional services to have been more heavily represented among the respondents. Retailers and firms in the nonprofessional services were underrepresented. Moreover, respondents on the average were about 16 percent larger than nonrespondents. The sample of interviewees is therefore not necessarily representative of the population as a whole.

Table A-1
The Industrial Composition of Wisconsin Survey Sample

Industrial Division	Frequency (%)	
	Respondents	Nonrespondents
Mining	2.9	2.5
Construction	13.6	12.7
Manufacturing	53.9	41.8
Retail	10.7	14.8
Nonprofessional services	9.7	18.6
Professional services	9.7	3.0

Table A-2
The Composition of Wisconsin Survey Sample by Employment Size

Number of Employees	Frequency (%)	
	Respondents	Nonrespondents
1–3	9.1	10.1
4–10	25.3	28.7
11–20	22.4	17.3
21–100	32.8	35.0
101–250	8.2	7.8
250–500	1.8	1.3
501 +	.7	0

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[1] Robert Tannenwald, "The Economic Impact of the Federal Jobs Tax Credit" (Ph.D. Dissertation, Harvard University, 1982).

C. Procedure Used to Estimate Demand-Side Multiplier Effects of New Jobs Tax Credit

It was assumed that multiplier effects created jobs at a rate of 15,000 per billion dollars of revenue loss, the same rate assumed by the Congressional Budget Office in its simulations of the budgetary cost-effectiveness of various employment tax credits.[2] In other words the total number of jobs created by multiplier effects was assumed to equal

$$(15{,}000)\left[\frac{\text{Tax savings enjoyed by firms in the Wisconsin sample}}{\$1\text{ billion}}\right]$$

D. Methodology for Estimating Elasticity of the Demand for Labor with Respect to the New Jobs Tax Credit

The elasticity of the demand for labor with respect to the New Jobs Tax Credit, ELCRED, was estimated according to the following formula:

ELCRED = − (JOBS/EMP)/S

where:

EMP = the sum of the average monthly levels of employment of all firms in the Wisconsin sample that qualified for the NJTC in 1978 according to FUTA wage and total wage data.

JOBS = the total number of full-time and part-time jobs whose creation in 1978 was reported to have been "decisively influenced" by the NJTC.

S = the average after-tax rate of subsidization conferred by the credit in 1978 to firms qualifying for it in that year according to FUTA wage and total wage data. Firm-specific after-tax rates of subsidization were calculated according to the following formula:

S = C(1 − MR).

C = the value of tax credits earned, determined according to formulas presented in Section A of this Appendix.

MR = the marginal rate of tax applicable to the firm, as determined by its reported taxable income and organizational form.

E. Methodology for Estimating Earned New Jobs Tax Credit from Wisconsin FUTA Wage Data

Since 1975 Wisconsin FUTA wages have consisted of the first $6,000 of each employee's annual salary. The New Jobs Tax Credit, however, was calculated under the assumption that FUTA wages consisted of the first $4,200 of each employee's annual salary. Some adjustment had to be made to the former before it could be used to estimate the latter.

In order to make this adjustment, the following strategy was adopted. First, it was assumed that the intrafirm salary distributions of each business surveyed in the Wisconsin study were identical. This clearly is a strong assumption. The shape of these distributions is likely to vary according to a firm's industry, size, etc. The assumption was made partially for simplicity and partially for lack of data sufficient to support a more detailed, finely tuned analysis.

This uniform salary distribution was then estimated with data from the 1977 Census of Population Studies (CPS) Workers Survey. The data consisted of the 1977 earnings of the 1,772 CPS respondents employed in the North Central Region (Wisconsin, Minnesota, Michigan, Ohio, and Illinois) and in one of the 20 industries represented in the Wisconsin sample. It was assumed that the frequency distribution across salaries in this sample was similar in form to the intrafirm distribution of each business surveyed in the Wisconsin study. The pool of workers in the CPS sample was therefore conceived of as one large, representative firm. This assumption is also strong, since the wage data for the 309 businesses surveyed in the Wisconsin study pertained to *slots*, while the CPS wage data pertained to *individuals*. The more the individuals in the CPS sample shifted from industry to industry or were without work during part of the year, the more the characteristics of the two sets of survey data were likely to diverge. Nevertheless, the assumption of comparability was made because the CPS data provided the best available estimate of the frequency distribution in question.

FUTA wages for this large "firm" were then estimated according to two rules: 1) that the appropriate definition of FUTA wages was the first $4,200 of annual wages per employee, and 2) that the appropriate definition was the first $6,000 of annual wages per employee. FUTA wages calculated according to the former rule were found to be .75 of FUTA wages calculated according to the latter rule. Thus, the FUTA wages of each firm in the Wisconsin survey sample were multiplied by .75 when they were used in calculations of New Jobs Tax Credits earned.

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[2] Alice M. Rivlin, Director, Congressional Budget Office, Letter to the Honorable Floyd Haskell, Chairman, Subcommittee on Administration of the Internal Revenue Code, Committee on Finance, United States Senate. 5 September 1978.

FEDERAL JOB CREATION PROGRAMS

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ISSUE DEFINITION

Continuing high levels of unemplcyment have focussed attention on the means whereby the Federal Government can create jobs. This brief explores what is meant by Government job creation programs and identifies and distinguishes between the major forms that these programs take.

BACKGROUND AND POLICY ANALYSIS

Almost all Federal Government activities affect the level of employment. Fiscal and monetary policies may affect the performance of the U.S. economy, with consequent impact on employment; Federal tax and regulatory policies affect the cost of hiring labor; and all Federal expenditure programs have direct and indirect employment effects, while income maintenance programs may affect the choice between work and leisure.

In common usage, the term "job-creation programs" is usually limited to certain expenditure programs. The distinction between expenditure programs so labeled and others is not necessarily in their job-creation impact but rather in the primary motivation for their enactment. Defense procurement, highway construction, and the provision of health services create many jobs but the particular justification for these programs is primarily the need for the goods or services provided and only secondarily, if at all, on the job opportunities created. For example, in FY72 the various programs of the Department of HEW supported over 900,000 non-Federal jobs while the public employment program of the Labor Department (the major job creation program of that year) provided well under 200,000 enrollment opportunities in non-Federal jobs. The difference is clearly not the number of jobs but the justification for the program.

The distinctive feature of a job creation program seems to be that (a) it is justified, at least in large part, by the argument that it will create jobs, and (b) that the jobs are not limited to carrying out a specific program. Thus, grants to the States for operating social service programs support a large number of jobs but that is not an explicit rationale for the program and nearly all of the jobs are in social service agencies. In contrast, a public service employment program is supported because it creates jobs and those jobs may be in any form of public service.

At the present time, three major job creation programs are usually identified: public service employment, public works, and counter-cyclical revenue sharing. Each is supported for its job creation effect and provides jobs in support of a variety of activities. A more complete list of job creation programs appears below in Table I.

TABLE I

Federal Programs Which Will Fund Jobs Without Specific Reference to the Substance of the Program

CETA Titles I, II, III, VI

Work Incentive Program

Older Americans Community Service Employment Program

Counter-Cyclical Revenue Sharing

General Revenue Sharing

Title II, Public Works and Economic Development Act

Title X, Public Works and Economic Development Act

Public Works Employment

Title I, Housing and Community Development Act

In brief, public service employment provides grants to State and local governments to enable them to fund jobs providing necessary public services, either in public or nonprofit agencies. Eighty-five percent of the Federal funds must be used to pay the employees' wages and benefits, and the remainder are available for administration and for the purchase of supplies and equipment. The average annual cost for each employee is about $8,500. The main authorizing legislation is the Comprehensive Employment and Training Act, Titles II and VI.

Public works programs provide grants to State and local governmental agencies, including special purpose agencies such as school boards, to finance construction projects. Typically these projects are performed by private construction contractors who submit bids for the work. Under Title I of the Public Works Employment Act, Federal funds are available for 100% of the costs of projects approved by the Federal administering agency. On-site labor must begin within 90 days after approval.

Counter-cyclical revenue sharing provides grants to State and local governments impacted by high unemployment in order to retain or rehire employees necessary to maintain customary services. The size of the authorization is geared to the national unemployment rate and the funds are distributed to State and local governments by a formula related both to the local unemployment rate and the amounts received under the general revenue sharing program.

The major distinctions between these programs are in:

Type of Employer -- Counter-cyclical revenue sharing supports jobs only in the public sector; public service employment provides jobs in public and nonprofit agencies; public works jobs are predominantly in the private sector.

Type of Worker -- Counter-cyclical revenue sharing supports currently employed State and local government employees; public service employment programs place substantial emphasis on hiring the long-term unemployed and those with difficulties in the competitive labor market; public works programs provide employment for construction workers and for others in businesses supplying that industry.

Extent of job creation -- Counter-cyclical revenue sharing is designed to prevent reductions in employment. Public service employment is generally accepted as providing the largest net additions to employment in the short run, although that addition is reduced over time because the Federally financed jobs are substituted for those that would have been provided in other ways. Public works programs are generally slower to be implemented and have a larger share of immediate costs going into non-wage costs, though these costs are expected to be translated into jobs in industries serving the construction industry.

Many conflicting claims are made concerning the job-creating impact of these programs. There is much difficulty in estimating that impact; the uncertainty is exacerbated by the fact that the job-creating effect is measured in different ways. The number of different persons employed and man-years of employment provided are two very different measures, particularly when many of the jobs are short term, as is typically the case in construction. Further, there are several types of employment impact: first, those directly hired to perform the job; second, employment generated by purchases necessary to perform the job; and third, employment generated by the new purchasing power gained by those who are employed because of the first two types of impact. Estimates of cost per job often do not specify in what way that term is being used. CBO estimates on the job-creating effects of various programs appear in Table II.

Table II

Estimates of employment and budget impact of various programs costing $1 billion. (1)

Type of program	Increase in jobs (thousands)	Reduction in unemployment rate	Net budget cost (millions)
		Initial impact	
Public service employment	80-125	0.08-.11	$754-615
Anti-recession aid to State and local governments	40-77	.04-.07	830-716
Accelerated public works	16-46	.02-.04	915-793
Tax cut (2)	8-15	.01-.02	980-960
Government purchases	20-50	.02-.04	948-870
		12 months	
Public service employment	90-145	0.08-.13	$492-425
Anti-recession aid to State and local governments	70-97	.07-.09	590-570
Accelerated public works	56-70	.06-.07	537-510
Tax cut (2)	26-35	.02-.03	740-720
Government purchases	40-70	.03-.05	600-590
		24 months	
Public service employment	90-150	0.08-.13	$392-312
Anti-recession aid to State and local governments	72-100	.07-.09	480-450
Accelerated public works	64-80	.07-.08	430-390
Tax cut (2)	30-40	.02-.03	663-637
Government purchases	60-80	.04-.05	475-425

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1. These estimates assume no monetary accommodation. If the money supply were increased to prevent interest rates from rising as a result of the expansionary fiscal measure, the job-creative effect would be higher and the net deficit cost lower. Accommodating monetary policy would increase the expansionary effect by 25% or more which, in turn, would reduce the budget cost by an average of about $125 million.

2. The income tax cut it assumed to be one-third corporate and two-thirds personal. If the tax cut were entirely personal, the expansionary effect would be about 50% greater and the net budget cost about $175 million lower.

Source: U.S. Congressional Budget Office. Temporary measures to stimulate employment: an evaluation of some alternatives. Rev. Washington, U.S. Govt. Print. Off., 1975. 102 p.

The existing programs also vary in the formulas for distributing funds, the eligible recipient agencies, and many factors not covered in this brief overview.

LEGISLATION

P.L. 95-28 (H.R. 11)

Amends the Local Public Works Capital Development and Investment Act of 1976 to increase the amount authorized to be appropriated under such Act. Enacted as P.L. 95-28 on May 13, 1977.

P.L. 95-29 (H.R. 4876)

Makes economic stimulus appropriations for fiscal year 1977 to the Department of the Treasury, the National Aeronautics and Space Administration, the Department of Labor, the Department of Commerce, and the Department of Transportation. Enacted as P.L. 95-29 on May 13, 1977.

P.L. 95-30 (H.R. 3477)

Sec. 202 provides a tax credit for the employment of additional employees. Title VI extends the authorization of the countercyclical revenue sharing program. Enacted as P.L. 95-30 on May 23, 1977.

For more detailed references to legislation see:

IB77022 -- Youth Employment;
IB77063 -- Public Service Employment;
IB74041 -- Regional Economic Development; and
IB76035 -- Tax Reduction (Counter cyclical).

REPORTS AND CONGRESSIONAL DOCUMENTS

U.S. Congress. Conference Committees, 1977. Increasing authorization for Local Public Works Capital Development and Investment Act of 1976; conference report to accompany H.R. 11. Washington, U.S. Govt. Print. Off., 1977. 25 p. (95th Congress, 1st session. House. Report no. 95-230).

----- Making economic stimulus appropriations for the fiscal year ending September 30, 1977; conference report to accompany H.R. 4876. Washington, U.S. Govt. Print. Off., 1977. 6 p. (95th Congress, 1st session. House. Report no. 95-238).

----- Tax Reduction and Simplification Act of 1977; conference report to accompany H.R. 3477. Washington, U.S. Govt. Print. Off., 1977. 36 p. (95th Congress, 1st session. House. Report no. 95-263).

U.S. Congress. House. Committee on Government Operations. Intergovernmental Antirecession Assistance Act of 1977; report together with additional and dissenting views to accompany H.R. 6810. Washington, U.S. Govt. Print. Off., 1977. 29 p. (95th Congress, 1st session. House. Report no. 95-275).

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A BRIEF HISTORY OF WORK RELIEF PROGRAMS DURING THE DEPRESSION

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The Emergency Relief and Construction Act of 1932 under which the Reconstruction Finance Corporation was authorized to make repayable advances to the States to relieve the hardships resulting from unemployment and to lend funds for self-liquidating public works[1] was the first major Federally-financed work relief program of the Depression. From July 1932 to May 1933, $300,000,000 in Federal funds was loaned to the States for public works projects. Peak employment in largely unskilled manual labor jobs was 1,970,000 in March 1933.

In May of 1933, the Federal Emergency Relief Act (FERA) -- modeled on a New York State program which Franklin Roosevelt had initiated when he was governor of that state -- "permitted the federal government to make grants-in-aid to states to stimulate private employment if possible, to create public jobs if not, and to provide relief if necessary."[2] FERA programs spent $3,088,670,625 in government funds before relief responsibilities were returned to the states at the end of 1935.[3] Peak employment in the program was 2,466,266 in January 1935.

The Civil Works Administration, also aimed at providing work relief, was launched in November 1933. Half of the employees were to be from the relief rolls and the other half from the ranks of the unemployed not on relief. The program was expensive (spending nearly one billion dollars in eight months) and was terminated in July 1934 having had a peak employment of 4,263,644 in January 1934.[4]

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[1] National Resources Planning Board, Security, Work, and Relief Policies. Washington, U.S. Government Printing Office, 1942, p. 556.
[2] Briscoe, Alden F. in U.S. Congress. Senate. What should Be the Role of the Federal Government in Extending Public Assistance to All Americans Living in Poverty" Washington, U.S. Government Printing Office, 1973, p. 125.
[3] National Resources Planning Board, *op. cit.*, p. 557.

The Emergency Conservation Work program (later called the Civilian Conservation Corps) and the National Youth Administration were developed especially for youth. The CCC, organized in April 1933, employed an annual average of 250,000 to 300,000 youths to build trails, roads, cabins, firebreaks, and to do other conservation work in the country's national parks and forests.[5] Total government expenditures for the program, which lasted from 1933 to 1940, were $2,628,327,000.[6] The NYA, begun in June 1935, employed an average of 150,000 to 190,000 in-school and out-of-school youth, mostly on part-time jobs. During its five year existence, the program cost $355,979,000 in State and Federal funds.

By far the largest of all the work relief programs during the Depression was the Works Progress Administration (WPA). It was established by the Emergency Relief Appropriations Act passed by Congress on April 8, 1935. That act appropriated $4.88 billion "to provide relief, work relief, and to increase employment by providing useful projects." The money was divided up mostly among existing federal agencies with the idea that each would sponsor temporary projects for unemployed workers. The new agency, WPA, received $1.4 billion to finance "small useful projects."[7] Because other federal agencies had difficulty developing projects, most were soon run directly by the WPA.

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[4] Brown, Josephine C. Public Relief, 1929-1939. New York, Henry Holt and Co., 1940, p. 140-159.
[5] Briscoe, op. cit., p. 125.
[6] National Resources Planning Board, op. cit., p. 598.
[7] Briscoe, op. cit., p. 125.

Projects were to be initiated locally by a state or local government or by a federal agency known as a sponsor. (The WPA itself acted as its own sponsor in a few cases; however, after 1939 Congress required projects to be sponsored by some public body other than the WPA).[8] The sponsor was expected to contribute to the cost of the project. The contribution could be in cash or kind (office space, material, use of equipment, etc.) and was expected to be at least 25% of the total cost. (This percentage was not formalized until 1940 when it was set at 25 percent for the state as a whole, although individual projects could guarantee less. Prior to this ruling the local contribution averaged about 19 percent).[9] Plans for projects were worked out between the sponsor and the district WPA office and approved by the state and finally the national office. Although the sponsor had to guarantee part of the overall supervision of the project and provide the site, the WPA was responsible for hiring and paying workers, securing necessary materials, supplies, and equipment, and supervising the actual work.[10] On completion, the product of the project came under local jurisdiction.

But end products were not the primary goal of WPA. Its purpose was to provide temporary work relief to needy unemployed people. As Administrator Hopkins told his staff in June 1935: "Never forget that the objective of this whole program as laid down by the President is the objective of taking 3,500,000 people off relief and putting them to work, and the secondary objective is to put them to work on the best possible projects we can."[11]

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[8] Briscoe, op. cit., p. 127.
[9] Ibid., p. 128.
[10] Ibid., p. 128
[11] Craig, Lois, "Beyond "Leaf-Raking': WPA's Lasting Legacy," City, Vol. 4, No. 3, October/November, 1970, p. 23.

The goal of employing 3.5 million people was never reached, but in November 1938 employment on WPA projects peaked at 3,300,000 workers. The yearly average of WPA employees compared with the total civilian labor force (in parenthesis) was: in 1936- 2,544,000 (53,440,000); in 1937- 1,793,000 (54,000,000); in 1938- 2,893,000 (54,610,000); in 1939- 2,658,000 (55,230,000).

The two major criteria for employment on WPA were need and employability. State and local relief agencies were approved by WPA to certify need. Their determinations were based on considerations such as family income, family size, and participation of a family member in other relief programs. Those under 18 did not qualify since the CCC and NYA were designed specifically for youth. There was no upper age limit and older workers tended to be a high percentage of WPA enrollees because it was difficult for them to find other employment. (43% of all WPA employees in November 1937 were 45 or older). For the same reason, Blacks tended to be a higher percentage of employees (15.2 percent in 1937) than they were of the population as a whole.[12] Despite the predominance of construction projects, women constituted from 13 to 18 percent of those employed during WPA's existence.[13]

From 1936 to 1942, WPA paid out an average of nearly $1.4 billion per year in wages. In 1935, President Roosevelt had set the policy for wages by declaring that compensation would be in the form of "security payments, which should be larger than the amount now received as a relief dole, but...not so large as to encourage the rejection of opportunities for private employment."[14] In 1936, Congress required that WPA workers be paid prevailing hourly wages but the number of hours employees were allowed to work was correspondingly limited so that that number multiplied by the prevailing hourly wage would equal the prescribed "security wage." In 1939, the prevailing-hourly-wage policy was abandoned. From then on, WPA employees were required to work 130 hours per month to earn the security wage.[15] These security wages varied with the type of work and the region in which it was being done. For instance, in August 1939, the lowest wages were paid in Mississippi, ranging from $31.20 per month to $74.40. In the District of Columbia at the same time, the range was $52.00 to $94.90 per month (the highest paid anywhere for skilled work).[16]

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[12] National Resource Planning Board, *op. cit.*, p. 115.
[13] *Ibid.*, p. 116.
[14] Briscoe, *op. cit.*, p. 131.

From 1936 through 1941, WPA expenditures for both the Federal and State governments totalled over $11 billion. On a yearly average for this period WPA wages were approximately 1.5 percent of the GNP and between 20 and 30 percent of annual Federal expenditures.[17] It is difficult to calculate exactly how many store owners, landlords, and construction material manufacturers and suppliers benefited from business with WPA employees and projects but one WPA official in 1938 estimated that the program affected the economic well-being of 50,000,000 people or 40% of the population at the time.[18]

Though the majority (averaging 76% per year from 1936 to 1940) of WPA projects were construction projects such as highways, public buildings, recreational facilities, sewer systems, and airports, there were many other types of employment available. The list included: making Braille books, sewing garments for the needy, teaching handicrafts, serving school lunches, controlling mosquitos, beautifying cemeteries, stuffing birds, painting murals, restoring library books, sealing abandoned mines, teaching Spanish to members of the Armed Forces, and giving concerts.[19] WPA workers built 651,000 miles of new roads; built or reconstructed 124,000 bridges and viaducts; built 35,000 new buildings and 353 new air fields (including New York's LaGuardia); restored Independence Hall in Philadelphia and Faneuil Hall in Boston; built the Philadelphia Art Museum, New York's Central Park Zoo, and Chicago's waterfront; served 765,000,000 school lunches; preserved 60,000,000 quarts of food; and cut the illiteracy rate in Arkansas by 40%.[20] However, as Alden Briscoe points out, the completed projects were "less important than the money paid out in salaries...millions maintained their self-respect and fed themselves and their dependents as a result of the WPA."[21]

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[16] Briscoe, op. cit., p. 131.
[17] Ibid., p. 138.
[18] Howard, Donald S. "WPA: A Giant Rescue Operation," Washington Post, January 7, 1975, p. A14.
[19] Howard, Donald S. The WPA and Federal Relief Policy. New York. Russell Sage Foundation, 1943, p. 126.

Under President Roosevelt's Reorganization Plan No. I, effective on July 1, 1939, the Works Progress Administration became the Works Projects Administration and was placed under the Federal Works Agency. Only 1.6 million people were employed by the program in 1940 as the nation's economy, stimulated by defense demands, began to recover from the Depression. The program was terminated in 1943.

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[20] Briscoe, op. cit., p. 134.
[21] Ibid., p. 134.

HOUSEHOLD DATA
HISTORICAL

Employment status of the noninstitutional population, 1929 to 1947.

[Numbers in thousands]

Year	Total noninstitutional population	Total labor force		Civilian labor force						Not in labor force
					Employed			Unemployed		
		Number	Percent of population	Total	Total	Agriculture	Nonagricultural industries	Number	Percent of labor force	
	Persons 14 years of age and over									
1929	(1)	49,440	(1)	49,180	47,630	10,450	37,180	1,550	3.2	(1)
1930	(1)	50,080	(1)	49,820	45,480	10,340	35,140	4,340	8.7	(1)
1931	(1)	50,680	(1)	50,420	42,400	10,290	32,110	8,020	15.9	(1)
1932	(1)	51,250	(1)	51,000	38,940	10,170	28,770	12,060	23.6	(1)
1933	(1)	51,840	(1)	51,590	38,760	10,090	28,670	12,830	24.9	(1)
1934	(1)	52,490	(1)	52,230	40,890	9,900	30,990	11,340	21.7	(1)
1935	(1)	53,140	(1)	52,870	42,260	10,110	32,150	10,610	20.1	(1)
1936	(1)	53,740	(1)	53,440	44,410	10,000	34,410	9,030	16.9	(1)
1937	(1)	54,320	(1)	54,000	46,300	9,820	36,480	7,700	14.3	(1)
1938	(1)	54,950	(1)	54,610	44,220	9,690	34,530	10,390	19.0	(1)
1939	(1)	55,600	(1)	55,230	45,750	9,610	36,140	9,480	17.2	(1)
1940	100,380	56,180	56.0	55,640	47,520	9,540	37,980	8,120	14.6	44,200
1941	101,520	57,530	56.7	55,910	50,350	9,100	41,250	5,560	9.9	43,990
1942	102,610	60,380	58.8	56,410	53,750	9,250	44,500	2,660	4.7	42,230
1943	103,660	64,560	62.3	55,540	54,470	9,080	45,390	1,070	1.9	39,100
1944	104,630	66,040	63.1	54,630	53,960	8,950	45,010	670	1.2	38,590
1945	105,530	65,300	61.9	53,860	52,820	8,580	44,240	1,040	1.9	40,230
1946	106,520	60,970	57.2	57,520	55,250	8,320	46,930	2,270	3.9	45,550
1947	107,608	61,758	57.4	60,168	57,812	8,256	49,557	2,356	3.9	45,850

[1] Not available.

[2] Not strictly comparable with data for prior years. For an explanation, see "Historic Comparability" under Household Data section of Explanatory Notes.

Source: Employment and Earnings, U.S. Department of Labor, Bureau of Labor Statistics, Vol. 30 No. 1, p. 140